FOREIGN TRADE AND TARIFF PROPOSALS

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HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

SECOND SESSION

ON

TARIFF AND TRADE PROPOSAL

(Administration officials testified before the committee on June 4, 5, and 10, 1968, and such testimony is contained in Parts 1 and 2. Subsequent volumes will be published containing testimony of public witnesses appearing before the committee through July 3, 1968.)

PART 1

Contains June 4, 1968

Printed for the use of the Committee on Ways and Means

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FOREIGN TRADE AND TARIFF PROPOSALS

TUESDAY, JUNE 4, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

The committee is today beginning public hearings on the general subject of the balance of trade between the United States and foreign nations. The hearings will encompass not only the administration proposal, which was transmitted to the Congress on May 28 last, and is in bill form, H.R. 17551, but also the series of subjects which were mentioned in the press release of May 9 announcing the hearings.

Without objection, a copy of that press release will be placed in the record following this statement.

Also, without objection, a copy of the President's message of May 28, a copy of H.R. 17551, embodying the administration's proposal, and a section-by-section analysis of that proposal prepared by the executive branch, as printed in the committee print entitled "Proposed 'Trade Expansion Act of 1968'" will be placed in the record.

A large number of requests to be heard have been received. It is our expectation that this hearing must be completed not later than July 3, 1968, if it is at all possible. This makes it very important that all organizations and individuals coordinate their testimony to the maximum extent possible and even condense their statements.

Of course, full statements may be included in the record.

In general, this week will be devoted to testimony from administration officials; the week of June 10 will be devoted to receipt of general testimony; and the last 2 weeks will be devoted to receipt of testimony on a commodity-by-commodity or industry-by-industry basis.

Our witnesses today will be the Secretary of Commerce, the Honorable Cyrus R. Smith; the Secretary of the Interior, the Honorable Stewart L. Udall; the Secretary of Labor, the Honorable W. Willard Wirtz; and the Special Representative for Trade Negotiations, Ambassador William M. Roth.

Tomorrow we will hear testimony specifically on the administration's proposal from Ambassador Roth. On Thursday we will receive statements from the Secretary of State, the Honorable Dean Rusk; the Secretary of Agriculture, the Honorable Orville L. Freeman; and Special Assistant to the President for Consumer Affairs, Miss Betty Furness.

We will leave Friday of this week available in the event it is needed for further interrogation of the administration officials. It is suggested that the four witnesses be permitted to sit as a panel and complete their statements in their entirety as a group prior to interrogation. Is there any objection to that procedure?

None is heard. I believe that this will make it possible for us to obtain a more orderly presentation. I understand that all the members of the panel will be available during the afternoon session, if necessary, for interrogation except for a brief period when the Secretary of the Interior will have to be elsewhere.

(The material follows:)

[Press Release, Thursday, May 9, 1968]

CHAIRMAN WILBUR D. MILLS, DEMOCRAT, OF ARKANSAS, COMMITTEE ON WAYS AND MEANS, ANNOUNCES PUBLIC HEARINGS ON TARIFF AND TRADE PROPOSALS

Chairman Wilbur D. Mills (D., Ark.), Committee on Ways and Means, today announced that public hearings would be held by the Committee beginning on Tuesday, June 4, 1968, on the general subject of the balance of trade between the United States and foreign nations. The hearings will encompass the following subjects:

(1) Such proposals as may be made by the Administration relative to—

(*a*) the extension of the President's trade agreement authority under the Trade Expansion Act;

(*b*) amendment of the adjustment assistance criteria for firms and workers adversely affected by imports;

(*c*) the elimination of the American selling price valuation on benzenoid chemicals and certain other products; and

(*d*) other related trade agreement matters.

(2) Proposals relative to imposition of quotas, either on an across-the-board basis or on named items or commodities.

(3) Proposals for increasing our exports.

(4) Proposals relative to antidumping, countervailing duties, and related matters.

(5) Proposals on tariff matters generally.

(6) Results of Kennedy Round agreement.

(7) Measures directed at maintaining our favorite balance of trade and other matters related to the balance of trade in the context of our balance of payments problems.

It is expected that the Administration proposals will be transmitted to the Congress prior to the hearing. As soon as they are received, they will be made available to the public so that the general public will be in a position to testify on that subject.

The hearing will begin on Tuesday, June 4, 1968. The lead-off witnesses will be representatives of the Administration who will testify during the first few days. Administration witnesses will be followed by witnesses from the general public.

Requests to be heard must be submitted not later than the close of business Monday, May 27, 1968. In due course, witnesses will be advised as to when they are scheduled. Details relative to the scheduling of witnesses and the information required in connection therewith are set forth below.

Lead-Off Witnesses.—As indicated, the first witnesses to appear at the hearings will be representaties of the Administration. This testimony will be followed by interested public witnesses.

Cut-off Date for Requests to be Heard.—The cut-off date for requests to be heard is not later than the close of business Monday, May 27, 1968. The requests should be submitted to John M. Martin, Jr., Chief Counsel, Committee on Ways and Means, 1102 Longworth House Office Building, Washington, D.C. 20515.

Witnesses will be advised as promptly as possible after the cut-off date as to when they have been scheduled to appear. After receipt of all requests to be heard, an attempt will be made to organize the hearings so that persons requesting to be heard on the same subject will be scheduled during the same time period.

Coordination of Testimony.—In view of the broad scope of the hearings, the

Committee requests that all persons and organizations with the same general interest designate one spokesman to represent them so as to conserve the time of the Committee and the other witnesses, prevent repetition and assure that all aspects of the proposals can be given appropriate attention.

The Committee will be pleased to receive from any interested organization or persons a written statement for consideration for inclusion in the printed record of the hearing in lieu of a personal appearance. These statements will be given the same full consideration as though the statements had been presented in person. In such cases, a minimum of three (3) copies of the statement should be submitted by a date to be specified later.

Contents of Requests to be Heard.—In order to eliminate repetitious testimony and to properly schedule witnesses, it will be necessary for the request to be heard to specify—

(1) the name, address, and capacity in which the witness will appear;

(2) the list of persons or organizations the witness represents and in the case of associations or organizations, their total membership and where possible a membership list;

(3) the amount of time the witness desires in which to present his *direct* oral testimony (not including answers to questions of Committee Members);

(4) an indication of whether or not the witness is supporting or opposing the proposal or proposals on which he desires to testify; and

(5) a *topical outline* or *summary* of the comments and recommendations which the witness proposes to make.

If a prospective witness has already submitted a request to be heard on any of the subjects covered by this hearing, the request should be re-submitted furnishing the above information and otherwise conforming to the rules set forth for conducting this hearing.

Written Statements.—In the case of those persons who are scheduled to appear and testify, it is requested that 75 copies of their written statements be submitted 24 hours in advance of their scheduled appearance. If it is desired, an additional 75 copies may be submitted for distribution to the press and the interested public on the witness' date of appearance.

Persons submitting a minimum of three written statements in lieu of a personal appearance may also, if they desire, submit an additional 75 copies of their statements for distribution to the Committee Members and the interested departmental and legislative staffs, pending the printing of the public hearings, which will include such statements along with the oral testimony of those persons who appear in person. An additional 75 copies may be submitted for the press and the interested public, if it is desired.

Format of All Written Statements.—To more usefully serve their purpose, *all* written statements (those for the purpose of personal appearance and those submitted in lieu of a personal appearance) should contain—

(1) a summary of comments and recommendations, and

(2) subject headings in their main body.

90th Congress } COMMITTEE PRINT
2d Session }

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

PROPOSED

"TRADE EXPANSION ACT OF 1968"

MESSAGE OF THE PRESIDENT, DRAFT BILL*, AND SECTION-BY-SECTION ANALYSIS

AS SUBMITTED TO THE CONGRESS
AND REFERRED TO THE

COMMITTEE ON WAYS AND MEANS

ON MAY 28, 1968

*Introduced by Chairman Mills at the request of the Administration on May 28, 1968, as H.R. 17551, so as to make the language widely available for comment during the course of the public hearings to begin on June 4, 1968, before the Committee on Ways and Means.

NOTE: This document is printed for information only so as to make it generally available, and is not to be construed as the statement or position of the Committee on Ways and Means or any member thereof.

U.S. GOVERNMENT PRINTING OFFICE
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MESSAGE OF THE PRESIDENT

GREATER PROSPERITY THROUGH EXPANDED WORLD TRADE

To the Congress of the United States:

A nation's trade lines are its life lines. Open trade lines and active commerce lead to economic health and growth. Closed trade lines end in economic stagnation.

Frank D. Roosevelt recognized these truths more than thirty years ago, when the nation and the world were in the grip of Depression.

On that March day in 1934 when he asked the Congress to pass the historic Reciprocal Trade Act, he pointed to America's declining world trade and what it meant to the nation: "idle hands, still machines, ships tied to their docks."

That Act set in motion three and a half decades of descenting tariff barriers and rising world trade. Our producers and farmers found new markets abroad, and American exports multiplied twenty-fold.

This era of commercial progress was capped by the Kennedy Round Agreements reached at Geneva last year—the greatest success in all the history of international trade negotiations.

When I reported to the Congress last November on the Kennedy Round, I said it would mean new factories, more jobs, lower prices to families, and higher incomes for American workers and for our trading partners throughout the world.

Already, through these Agreements, tariff barriers everywhere are falling, bringing savings to consumers, and opening new overseas markets for competitive producers.

But the problems and the promises of world trade are always changing. We must have the tools not only to adjust to change, but to turn change to our advantage.

To prepare for the era of world trade unfolding before us now, I submit to the Congress today the Trade Expansion Act of 1968. This measure will:

Maintain our negotiating authority to settle—advantageously—trade problems and disputes.

Carry out the special Geneva agreement on chemicals and other products.

Improve the means through which American firms and workers can adjust to new competition from increased imports.

OUR INTERNATIONAL RESPONSIBILITIES

The Trade Expansion Act of 1968 will strengthen relations with our trading partners in three ways.

First, it will extend through June 30, 1970 the President's authority to conduct negotiations for tariff reductions. This authority was contained in provisions of the Trade Expansion Act of 1962 that have expired.

Most of this authority was used in negotiating the Kennedy Round. The unused portion of that Authority will give the President the flexibility to adjust tariff rates as future developments might require.

For example, the United States might find it necessary to increase the duty on a particular article—as the result of an "escape clause" action or a statutory change in tariff classification. In such event, we would be obliged to give other nations compensatory tariff adjustments for their trade losses.

Without this authority, we would invite retaliation and endanger American markets abroad.

I recommend that the President's authority to make these tariff adjustments be extended through June 30, 1970.

Second, the Trade Expansion Act of 1968 will eliminate the American Selling Price system of customs valuation. This action is necessary to carry out the special agreement reached during the Kennedy Round.

The American Selling Price system has outlived its purpose. It should be ended.

The generally accepted method of valuing goods for tariff purposes—which we and all our trading partners employ—is to use the actual price of the item to the importer.

But many years ago, to protect a few of our fledgling industries, we imposed on competing foreign goods—in addition to a substantial tariff—the special requirement that their tariff value be determined by American prices. Today this unusual system often produces tariff protection or more than 100 percent of the import cost of the product.

Such excessive protection is both unfair and unnecessary.

This system is unfair because it:

—Gives to a few industries a special privilege available to no other American business.

—Rests on an arbitrary method of valuation which no other nation uses.

—Diverges from the provisions of the General Agreement on Tariffs and Trade.

—Imposes an unjustified burden on the U.S. consumer.

This system is unnecessary because the few industries which it covers no longer need special government protection.

It applies primarily to the chemical industry in the benzenoid field. Yet chemicals, and benzenoids in particular, are among our most efficient and rapidly expanding industries. They have done well at home. They have done well in the international market. They are in a strong position to face normal competition from imports.

A supplementary agreement was negotiated at Geneva which will lower foreign tariffs on American chemicals and reduce certain nontariff barriers—road taxes and tariff preferences—on American automobiles and tobacco. To receive these important concessions, the United States must eliminate the American Selling Price valuation system and thereby give foreign producers of chemicals and a few other products normal access to our markets. This bargain is clearly in our national interest—good for our industries, good for our workers, and good for our consumers.

I recommend that the Congress eliminate the American Selling Price system to remove inequities in our tariffs and enable us to take advantage of concessions negotiated in the Kennedy Round.

Third, the Trade Expansion Act of 1968 will provide for specific funding of our participation in the General Agreement on Tariffs and Trade.

This is the procedure we follow in meeting our financial responsibilities to all other international organizations.

The General Agreement on Tariffs and Trade has become the most important forum for the conduct of international trade relations. The Kennedy Round took place under its auspices. Yet since 1947, we have financed our annual contribution to this Agreement through general contingency funds rather than through a specific authorization.

I recommend that the Congress authorize specific appropriations for the American share of the expenses for the General Agreement on Tariffs and Trade.

OUR NEEDS AT HOME

When trade barriers fall, the American people and the American economy benefit. Open trade lines:

—Reduce prices of goods from abroad.

—Increase opportunities for American businesses and farms to export their products. This means expanded production and more job opportunities.

—Help improve the efficiency and competitive strength of our industries. This means a higher rate of economic growth for our nation and higher incomes for our people.

Some firms, however, have difficulty in meeting foreign competition, and need time and help to make the adjustment.

Since international trade strengthens the nation as a whole, it is only fair that the government assist those businessmen and workers who face serious problems as a result of increased imports.

The Congress recognized this need—in the Trade Expansion Act of 1962—by establishing a program of trade adjustment assistance to businessmen and workers adversely affected by imports.

Unfortunately, this program has been ineffective. The test of eligibility has proved to be too rigid, too technical, and too complicated.

As part of a comprehensive trade expansion policy, I propose that we make our adjustment assistance program fair and workable.

I recommend that Congress broaden the eligibility for this assistance. The test should be simple and clear: relief should be available whenever increased imports are a substantial cause of injury.

I intend to pattern the administration of this program on the Automotive Products Trade Act of 1965. Determinations of eligibility will be made jointly by the Secretaries of Labor, Commerce and Treasury.

The adjustment assistance provisions of Automotive Product Trade Act of 1965 have been successful They have well served American automobile firms and their workers as we have moved to create an integrated U.S.-Canadian auto market.

These provisions will expire on June 30.

I recommend that the Congress extend the adjustment assistance provisions of the Automotive Products Trade Act through June 30, 1971.

TRADE INITIATIVES FOR THE FUTURE

The measures I have recommended today will help us carry forward the great tradition of our reciprocal trade policy.

But even as we consolidate our past gains, we must look to the future.

First and foremost, we must ensure that the progress we have made is not lost through new trade restrictions.

One central fact is clear. A vicious cycle of trade restrictions harms most of the nation which trades most. And America is that nation.

At the present time, proposals pending before the Congress would impose quotas or other trade restrictions on the imports of over twenty industries. These measures would cover about $7 billion of our imports—close to half of all imports subject to duty.

In a world of expanding trade, such restrictions would be self-defeating. Under international rules of trade, a nation restricts imports only at the risk of its own exports. Restriction begets restriction.

In reality, "protectionist" measures do not protect any of us:

—They do not protect the American working man. If world markets shrink, there will be fewer jobs.

—They do not protect the American businessman. In the long run, smaller markets will mean smaller profits.

—They do not protect the American consumer. He will pay more for the goods he buys.

The fact is that every American—directly or indirectly—has a stake in the growth and vitality of an open economic system.

Our policy of liberal trade has served this nation well. It will continue to advance our interests in the future.

But these are critical times for the nation's economy. We have launched a series of measures to reduce a serious balance of payments deficit. As part of this program, I have called for a major long-run effort to increase our trade surplus. This requires that we push ahead with actions to keep open the channels of trade.

Many of our trading partners have indicated a willingness to cooperate in this effort by accelerating some of their tariff reductions agreed to in the Kennedy Round, and by permitting the United States to defer a portion of our tariff reductions. Furthermore, a number of Western European countries are now taking more active steps to achieve a higher rate of economic growth. This promises to increase the demand for our exports and improve our trade position.

To take full advantage of the expanded trading opportunities that lie ahead, we must improve the competitive position of American goods. *Passage of the anti-inflation tax is the most critical action we could take now to strengthen our position at home and in world markets.* The tax measure I have recommended will help prevent destructive price increases—which can sap the vitality and strength of our economy. Continued rapid increases in our prices would mean fewer exports and higher imports.

Second, other nations must join with us to put an end to non-tariff barriers.

Trade is a two-way street. A successful trade policy must be built upon reciprocity. Our own trade initiatives will founder unless our trading partners join with us in these efforts.

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The Kennedy Round was an outstanding example of international cooperation. But major non-tariff barriers continue to impede the free flow of international commerce. These barriers now block many U.S. products from competing for world markets.

Some non-tariff barriers violate provisions of the General Agreement on Tariffs and Trade. We will step up our efforts to secure the prompt removal of these illegal restrictions.

Other non-tariff barriers may not be illegal, but they clearly hamper and hinder trade. Such barriers are found in all countries; the American Selling Price system is an example of one of our non-tariff barriers.

We have initiated a major international study to assess the effect of non-tariff barriers on world trade.

We have already begun action in the General Agreement on Tariffs and Trade and other international organizations to deal with some of these non-tariff barriers.

Efforts such as these are an important element in our trade policy. All sides must be prepared to dismantle unjustified or unreasonable barriers to trade.

Reciprocity and fair play are the essential standards for international trade. America will insist on these conditions in all our negotiations to lower non-tariff barriers.

Third, we must develop a long-range policy to guide American trade expansion through the 1970's.

I have directed the President's Special Representative for Trade Negotiations to make an intensive study of our future trade requirements and needs.

I would hope that Members of the Congress and leaders of Labor, Business and Agriculture will work with the Executive Branch in this effort. To help develop the foundations of a far-reaching policy, I will issue an Executive Order that establishes a wide basis for consultation and assistance in this important work.

AN EXPANDING ERA IN WORLD TRADE

The proposals in this message have been shaped to one purpose—to develop the promise of an expanding era in world trade.

We started on this road three and a half decades ago. In the course of that journey, the American farmer, the businessman, the worker and the consumer have benefitted.

The road ahead can lead to new levels of prosperity and achievement for the American people. The Trade Expansion Act of 1968 will speed us on the way.

I urge the Congress to give this important measure its prompt and favorable consideration.

LYNDON B. JOHNSON.

THE WHITE HOUSE, *May 28, 1968.*

Proposed "Trade Expansion Act of 1968"

A BILL To continue the expansion of international trade and thereby to promote the general welfare of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—SHORT TITLE AND PURPOSES

Sec. 101. Short Title.

This Act may be cited as the "Trade Expansion Act of 1968".

Sec. 102. Statement of Purposes.

The purposes of this Act are—

(1) to continue and strengthen the trade agreements program of the United States;

(2) to establish a viable program of adjustment assistance for firms and workers affected by imports; and

(3) to promote the reduction or elimination of non-tariff barriers to trade.

TITLE II—TRADE AGREEMENTS

Sec. 201. Basic Authority for Trade Agreements.

(a) Section 201(a)(1) of the Trade Expansion Act of 1962 (19 U.S.C. sec. 1821(a)(1)) is amended by striking out "July 1, 1967" and inserting in lieu thereof "July 1, 1970".

(b) The limitations set forth in section 201(b) of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1821(b)) shall be applicable, without exception other than as provided in section 254 of that Act (19 U.S.C., sec. 1884), to proclamations issued pursuant to the authority granted under subsection (a).

Sec. 202. General Agreement on Tariffs and Trade.

Chapter 5 of title II of the Trade Expansion Act of 1962 is amended by inserting immediately after section 243 (19 U.S.C., sec. 1873) the following new section:

"Sec. 244. General Agreement on Tariffs and Trade.

"There are hereby authorized to be appropriated annually such sums as may be necessary for the payment by the United States of its share of the expenses of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade."

TITLE III—ADJUSTMENT ASSISTANCE TO FIRMS AND WORKERS

Sec. 301. Petitions and Determinations.

Section 301 of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1901) is amended as follows:

(a) The title is amended to read "PETITIONS AND DETERMINATIONS".

(b) Subsection (a)(2) is amended by striking out "Tariff Commission" wherever it appears and inserting in lieu thereof "President".

(c) Subsection (a)(3) is amended by striking out "this subsection" and inserting in lieu thereof "paragraph (1)".

(d) Subsection (c) is amended to read as follows:

"(c)(1) In the case of a petition by a firm for a determination of eligibility to apply for adjustment assistance under chapter 2, the President shall determine whether increased quantities of imports of an article directly competitive with an article produced by the firm have been a substantial cause of serious injury, or the threat thereof, to such firm.

"(2) In the case of a petition by a group of workers for a determination of eligibility to apply for adjustment assistance under chapter 3, the President shall determine whether increased quantities of imports of an article directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, have been a substantial cause of unemployment or underemployment, or the threat thereof, of a significant number or proportion of the workers of such firm or subdivision.

"(3) In order to assist him in making the determinations referred to in paragraphs (1) and (2) with respect to a firm or group of workers, the President shall promptly transmit to the Tariff Commission a copy of each petition filed under subsection (a)(2) and, not later than 5 days after the date on which the petition is filed, shall request the Tariff Commission to conduct an investigation relating to questions of fact relevant to such determinations and to make a report of the facts disclosed by such investigation. In his request, the President may specify the particular kinds of data which he deems appropriate. Upon receipt of the President's request, the Tariff Commission shall promptly institute the investigation and promptly publish notice thereof in the Federal Register."

(e) Subsection (d)(2) is amended to read as follows:

"(2) In the course of any investigation under subsection (c)(3), the Tariff Commission shall, after reasonable notice, hold a public hearing, if such hearing is requested (not later than 10 days after the date of the publication of its notice under subsection (c)(3)) by the petitioner or any other person showing a proper interest in the subject matter of the investigation, and shall afford interested persons an opportunity to be present, produce evidence, and to be heard at such hearing."

(f) Subsection (f)(1) is amended by inserting "under subsection (b)" after "in each report" in the first sentence.

(g) Subsection (f)(3) is amended to read as follows:

"(3) The report of the Tariff Commission of the facts disclosed by its investigation under subsection (c)(3) with respect to a firm or group of workers shall be made at the earliest practicable time, but not later than 60 days after the date on which it receives the request of the President under subsection (c)(3)."

SEC. 302. PRESIDENTIAL ACTION AFTER TARIFF COMMISSION REPORTS.

Section 302 of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1902) is amended as follows:

(a) The title is amended to read "PRESIDENTIAL ACTION AFTER TARIFF COMMISSION REPORTS".

(b) Subsection (b)(1) is amended by striking out "have caused serious injury or threat thereof" and inserting in lieu thereof "have been a substantial cause of serious injury, or the threat thereof,".

(c) Subsection (b)(2) is amended by striking out "have caused or threatened to cause unemployment or underemployment" and inserting in lieu thereof "have been a substantial cause of unemployment or underemployment, or the threat thereof,".

(d) Subsection (c) is amended to read as follows:

"(c)(1) After receiving a report of the Tariff Commission of the facts disclosed by its investigation under section 301(c)(3) with respect to any firm or group of workers, the President shall make his determination under section 301(c)(1) or (c)(2) at the earliest practicable time, but not later than 30 days after the date on which he receives the Tariff Commission's report, unless, within such period, the President requests additional factual information from the Tariff Commission. In this event, the Tariff Commission shall, not later than 25 days after the date on which it receives the President's request, furnish such additional factual information in a supplemental report, and the President shall make his determination not later than 15 days after the date on which he receives such supplemental report.

"(2) The President shall promptly publish in the Federal Register a summary of each determination under section 301(c) with respect to any firm or group of workers.

"(3) If the President makes an affirmative determination under section 301(c) with respect to any firm or group of workers, he shall promptly certify that such firm or group of workers is eligible to apply for adjustment assistance.

"(4) The President is authorized to exercise any of his functions with respect to determinations and certifications of eligibility of firms or workers to apply for adjustment assistance under section 301 and this section through such agency or other instrumentality of the United States Government as he may direct."

SEC. 303. TAX ASSISTANCE TO FIRMS.

Section 317(a)(2) of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1917(2)) is amended by striking out "by the increased imports which the Tariff Commission has determined to result from concessions granted under trade agreements" and inserting in lieu thereof "by the increased imports identified by the Tariff Commission under section 301(b)(1) or by the President under section 301(c)(1), as the case may be".

SEC. 304. ADJUSTMENT ASSISTANCE TO WORKERS.

Section 337 of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1977) is amended by inserting ", including training not otherwise available," after "adjustment assistance".

TITLE IV—NONTARIFF BARRIERS TO TRADE

SEC. 401. ELIMINATION OF AMERICAN SELLING PRICE SYSTEM

(a) The President is authorized to proclaim such modifications of the Tariff Schedules of the United States (19 U.S.C., sec. 1202) as are required or appropriate to carry out—

(1) part II of the Agreement Relating Principally to Chemicals, Supplementary to the Geneva (1967) Protocol to the General Agreement on Tariffs and Trade, and

(2) the Agreement effected by an exchange of notes between the United States and Japan relating to certain canned clams and wool-knit gloves,

both of which agreements were concluded on June 30, 1967, and are set forth in House Document No. 322, 90th Congress, 2d Session.

(b) With respect to certain footwear presently provided for in item 700.60 of the Tariff Schedules of the United States, the President is authorized—

(1) to enter into an agreement providing for the replacement of item 700.60 by the new items which are designated 700.60A and 700.60B in the report of the Tariff Commission to the Special Representative for Trade Negotiations on investigation number 332–47 under section 332 of the Tariff Act of 1930 and whose rates of duty shall be applied to values determined in accordance with the methods of valuation, other than American selling price, provided for in section 402 of the Tariff Act of 1930 (19 U.S.C., sec. 1401a); and

(2) to proclaim such modifications of the Tariff Schedules of the United States as are required or appropriate to carry out such agreement, so long as such modifications do not become effective earlier than January 1, 1971, and the rates of duty for column numbered 1 proclaimed thereby are not lower than "20% ad val." for the item designated 700.60A nor lower than "25¢ per pair + 20% ad val. but not less than 58% ad val." for the item designated 700.60B.

(c) In a proclamation issued pursuant to this section, the President is authorized to simplify the Tariff Schedules of the United States by consolidating article descriptions, without changing rates of duty, with respect to articles which will be subject to full concession rates of duty that are identical to one another in column numbered 1 and to rates of duty that are identical to one another in column numbered 2. Any such consolidation shall become effective on the date the full concession rates of duty become effective for such articles.

(d) The President is authorized at any time to terminate, in whole or in part, any proclamation issued pursuant to this section.

SEC. 402. APPLICATION OF RELATED PROVISIONS.

(a) For purposes of section 256(4) of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1886(4)), each full concession rate of duty proclaimed pursuant to section 401 of this Act increased by 100% thereof shall be treated as the rate of duty existing on July 1, 1962.

(b) For purposes of section 301(b)(1) and related provisions of title III of the Trade Expansion Act of 1962 (19 U.S.C., sec. 1901–1991), a rate of duty proclaimed pursuant to section 401 of this Act shall be treated as a concession granted under a trade agreement.

(c) For purposes of general headnote 4 of the Tariff Schedules of the United States, a rate of duty proclaimed pursuant to section 401 of this Act shall be treated as a rate of duty proclaimed pursuant to a concession granted in a trade agreement.

SEC. 403. CONSEQUENTIAL AMENDMENTS OF TARIFF SCHEDULES OF UNITED STATES.

As of the effective date of a proclamation issued pursuant to section 401(a) or 401(b) of this Act, the Tariff Schedules of the United States are amended by those of the following paragraphs which apply to the articles to which such proclamation relates:

(1) Part 3E of schedule 1 as amended by striking out the rate of duty in column numbered 2 for item 114.05 and by inserting in such column "35¢ per lb." and "35% ad val." for the articles provided for in items 114.04 and 114.06, respectively, proclaimed pursuant to section 401(a) of this Act, and by striking out headnote 1 and the headnote heading preceding it.

(2) Part 1 of schedule 4 is amended by striking out the rates of duty in column numbered 2 in subparts B and C and by inserting in such column "7¢ per lb. + 75% ad val." for the articles provided for in each item proclaimed pursuant to section 401(a) of this Act, and by striking out headnotes 4 and 5 and inserting in lieu thereof:

"4. The ad valorem rates provided for in this part shall be applied to values determined in accordance with the methods of valuation provided for in section 402(a) through (d) of this Act (19 U.S.C. 1401a(a) through (d))."

(3) Part 1A of schedule 7 is amended by striking out the rate of duty in column numbered 2 for item 700.60 and by inserting in such column "35% ad val." and "40¢ per pair + 35% ad val. but not less than 90% ad val." for the articles described in the items designated 700.60A and 700.60B, respectively, referred to in section 401(b) of this Act, and by striking out headnote 3(b) and inserting in lieu thereof:

"(b) The ad valorem rates provided for in the items proclaimed in such proclamation as may be issued pursuant to section 401(b)(1) of the Trade Expansion Act of 1968 shall be applied to values determined in accordance with the methods of valuation provided for in section 402(a) through (d) of this Act (19 U.S.C. 1401a(a) through (d))."

(4) Part 1C of schedule 7 is amended by striking out the rate of duty in column numbered 2 for item 704.55 and inserting in lieu thereof "40¢ per lb. + 35% ad val.", and by striking out headnote 4 and inserting in lieu thereof:

"4. The ad valorem rates provided for in item 704.55 shall be applied to values determined in accordance with the methods of valuation provided for in section 402(a) through (d) of this Act (19 U.S.C. 1401a(a) through (d))."

SEC. 404. CONSEQUENTIAL AMENDMENTS OF OTHER PROVISIONS OF TARIFF ACT OF 1930.

As of the date the American selling price system of customs valuation is eliminated, pursuant to sections 401 and 404 of this Act, for all articles now subject to that system—

(1) Section 336 of the Tariff Act of 1930 (19 U.S.C., sec. 1336) is amended by striking out:

(A) subsection (b),

(B) "and in basis of value" in subsection (c),

(C) "or in basis of value" in subsections (d) and (f), and

(D) subsection (j).

(2) Section 402 of the Tariff Act of 1930 (19 U.S.C. sec., 1401a) is amended by striking out everything in subsection (a) which follows "constructed value" and precedes the period, and by striking out subsection (e).

(3) Section 402a of the Tariff Act of 1930 (19 U.S.C., sec. 1402) is amended by striking out everything in subsection (a) which follows "cost of production" and precedes the period, and by striking out subsection (g).

TITLE V—ADJUSTMENT ASSISTANCE TO FIRMS AND WORKERS IN AUTOMOTIVE INDUSTRY

SEC. 501. ADJUSTMENT ASSISTANCE TO FIRMS AND WORKERS IN AUTOMOTIVE INDUSTRY.

Section 302(a) of the Automotive Products Trade Act of 1965 (19 U.S.C., sec. 2022(a)) is amended by striking out "July 1, 1968" and inserting in lieu thereof "July 1, 1971".

SECTION-BY-SECTION ANALYSIS OF THE "TRADE EXPANSION ACT OF 1968"

The Trade Expansion Act of 1968 consists of five titles. Title I (secs. 101–102) is entitled "Short Title and Purposes," title II (secs. 201–202) "Trade Agreements," title III (secs. 301–304) "Adjustment Assistance to Firms and Workers," title IV (secs. 401–404) "Non-Tariff Barriers to Trade," and title V (sec. 501) "Adjustment Assistance to Firms and Workers in Automotive Industry."

TITLE I—SHORT TITLE AND PURPOSES

Section 101. Short title

This section provides that the short statutory title of the act is the "Trade Expansion Act of 1968."

Section 102. Statement of purposes

This section sets forth the three basic purposes of the act. The first purpose is to continue and strengthen the trade agreements program of the United States. The second purpose is to establish a viable program of adjustment assistance for firms and workers affected by imports. The third purpose is to promote the reduction or elimination of nontariff barriers to trade.

TITLE II—TRADE AGREEMENTS

Section 201. Basic authority for trade agreements

Subsection (a) amends section 201(a)(1) of the Trade Expansion Act of 1962 (TEA) so as to authorize the President to enter into trade agreements with foreign countries until July 1, 1970. Subsection (b) makes clear that, in proclaiming any reduction in a rate of duty pursuant to a trade agreement, the President is limited by section 201(b)(1) of the TEA to a reduction of not more than 50 percent of the rate existing on July 1, 1962.

As a result, the President may exercise whatever portion of his authority to reduce rates by as much as 50 percent which he did not use by the close of the Kennedy round of trade negotiations. He is not given any authority to eliminate rates of duty pursuant to section 202, 211, 212, or 213 of the TEA.

In fact, the authority provided by section 201 of the bill will not be used in any major bilateral or multilateral tariff negotiation. Instead, it is intended primarily for cases where the United States finds it necessary to increase a rate of duty which is subject to a tariff concession. In such cases, the United States would offer compensatory tariff concessions to the countries affected by the rate increase, since failure to do so would probably lead to retaliatory action on the part of such countries.

All the requirements of the TEA normally applicable to the exercise of the authority in section 201 of the TEA will apply, including the prenegotiation requirements of chapter 3 of title II of the TEA and the staging requirement of section 253 of the TEA.

Section 202. General agreement on tariffs and trade

This section amends the TEA by adding a new section 244. This new section authorizes annual appropriations to finance each year's U.S. contribution to the budget of the GATT. This contribution is presently financed from the appropriation made to the Department of State and entitled "International Conferences and Contingencies."

TITLE III—ADJUSTMENT ASSISTANCE TO FIRMS AND WORKERS

Section 301. Petitions and determinations

In general, section 301 amends section 301 of the TEA in two respects. First, it liberalizes the criteria of eligibility of individual firms and workers to apply for adjustment assistance. Among other changes, injury will be related to increased imports whether or not a trade agreement concession was involved. Second, it provides that, instead of the Tariff Commission, the President will make the substantive determinations of eligibility. The Tariff Commission's function will be to gather and supply to the President the relevant facts to assist him in making such determinations.

Subsection (a) amends section 301 of the TEA to change the title of the section from "Tariff Commission Investigations and Reports" to "Petitions and Determinations," consistent with the subsequent amendments to section 301.

Subsection (b) amends section 301(a)(2) of the TEA by substituting "President" for "Tariff Commission" in the two places it appears. Accordingly, petitions for a determination of eligibility to apply for adjustment assistance which are filed by a firm or a group of workers are to be filed with the President. It is expected that the President will delegate this function and his other functions under this section. In the case of a group of workers, it is intended that a group of three or more workers in a firm may qualify as a petitioner.

Subsection (c) amends section 301(a)(3) of the TEA so as to provide that the Tariff Commission shall transmit to the Secretary of Commerce copies only of petitions for tariff adjustment, since the Tariff Commission will no longer be receiving petitions for adjustment assistance.

Subsection (d) amends section 301(c) of the TEA so as to provide new criteria of eligibility of firms and workers to apply for adjustment assistance and to substitute the President for the Tariff Commission for the purpose of determining whether the criteria are satisfied.

Under the amendment, new section 301(c)(1) of the TEA provides that in the case of a petition by a firm for a determination of eligibility to apply for adjustment assistance under chapter 2 of title III of the TEA, the President shall determine whether increased quantities of imports of an article directly competitive with an article produced by the firm have been a substantial cause of serious injury, or the threat thereof, to such firm.

Similarly, new section 301(c)(2) of the TEA provides that in the case of a petition by a group of workers for a determination of eligibility to apply for adjustment assistance under chapter 3 of title III of the TEA, the President shall determine whether increased quantities of imports of an article directly competitive with an article produced by such workers' firm, or an appropriate subdivision thereof, have been a substantial cause of unemployment or underemployment, or the threat thereof, of a significant number or proportion of the workers of such firm or subdivision.

The term "increased quantities of imports" is intended to require that, if quantities of imports in a recent period reflect an absolute increase over quantities of imports in a representative base period, the total quantity of imports in such recent period shall be taken into account. Thus, if quantities of imports in a representative base period were 8 million units and the quantities in a recent period were 10 million units, the quantities of imports to be considered would be 10 million units.

The "directly competitive" imported article is intended to mean either an article which is like the domestic article and is therefore necessarily directly competitive with it, or one which is unlike the domestic article but nevertheless competes directly with it.

In cases where there is more than one directly competitive imported article, it is intended that the quantities of imports of the several imported articles shall be taken together for purposes of determining whether there have been increased quantities of imports.

By the use of the words "have been," it is intended that the increased quantities of imports shall have occurred in the recent past.

With respect to the causal relationship between increased quantities of imports and injury, or the threat thereof, the term "substantial cause" is intended to require the demonstration of an actual and considerable cause. A substantial cause in any specific case need not, however, be greater than all other causes combined nor even greater than any other single cause.

In the case of a firm, in determining serious injury, it is intended that all relevant economic factors shall be considered, including idling of productive facilities, inability to operate at a level of reasonable profit, and unemployment or underemployment.

In the case of a group of workers, it is intended that in most cases unemployment or underemployment shall be found where the unemployment or underemployment, or both, in a firm, or an appropriate subdivision thereof, is the equivalent of total unemployment of 5 percent of the workers or 50 workers, whichever is less. At the same time, there are many workers in plants employing fewer than 50 workers. Accordingly, there may be cases where as few as three workers in a firm, or an appropriate subdivision thereof, would constitute a significant number or proportion of the workers.

It is intended that an "appropriate subdivision" of a firm shall be that establishment in a multiestablishment firm which produces the domestic article in question. Where the article is produced in a distinct part or section of an establishment (whether the firm has one or more establishments), such part or section may be considered an appropriate subdivision.

New section 301(c)(3) of the TEA provides that the Tariff Commission shall assist the President in making determinations with respect to petitions filed by firms or groups of workers. That is, the President shall promptly transmit to the Tariff Commission a copy of each petition filed by a firm or group of workers under new section

301(a)(2) of the TEA. Not later than 5 days after the date on which the petition is filed, the President shall request the Tariff Commission to conduct an investigation relating to questions of fact relevant to his determinations under new sections 301(c) (1) and (2) of the TEA and to make a report of the facts disclosed by such investigation. In his request, the President may specify the particular kinds of data which he deems appropriate. This is not intended, however, to preclude the Tariff Commission from making an investigation of, and including in its report, such additional data as it considers relevant. Upon receipt of the President's request, the Tariff Commission shall promptly initiate the investigation and promptly publish notice thereof in the Federal Register.

It is intended that the President, and not the Tariff Commission, shall make the determinations under sections 301(c)(1) and (c)(2) with respect to firms and groups of workers. Accordingly, the Tariff Commission is not to include in its report conclusions, opinions, or judgments which are tantamount to the determinations. Instead, it is to present the facts and in a manner which will render the report useful to the President. It is recognized that the Tariff Commission will have to reach conclusions with respect to such subsidiary questions as what constitutes the firm or an appropriate subdivision thereof, what product is directly competitive, and what is the appropriate base period, in order to gather the relevant facts. In any case, however, the President has the final authority to make a decision with respect to any element which enters into the determinations under sections 301(c)(1) and (c)(2), and 302 (c), (d), and (e).

Subsection (e) amends section 301(d)(2) of the TEA to provide that, in the course of any investigation under new section 301(c)(3) of the TEA, the Tariff Commission shall hold a public hearing if requested by the petitioner or any other person showing a proper interest. However, such a request must be made not later than 10 days after the date of the publication of its notice under section 301(c)(3). The Tariff Commission is to afford interested persons an opportunity to be present, to produce evidence, and to be heard at such hearing. It is understood that a public hearing may be held in any case on the Tariff Commission's own motion.

Subsection (f) amends section 301(f)(1) of the TEA to provide that the Tariff Commission shall be under an affirmative obligation to include any dissenting or separate views only in its reports concerning petitions for tariff adjustment.

Subsection (g) amends section 301(f)(3) of the TEA to provide that the report of the Tariff Commission of the facts disclosed by its investigation under new section 301(c)(3) of the TEA with respect to a firm or group of workers shall be made at the earliest practicable time, but not later than 60 days after the date on which it receives the request of the President under new section 301(c)(3).

Section 302. Presidential action after Tariff Commission reports

In general, section 302 amends section 302 of the TEA to provide for Presidential action following receipt of the Tariff Commission's factual report with respect to a petition for adjustment assistance.

Subsection (a) amends section 302 of the TEA to change the title of the section from "Presidential Action After Tariff Commission Determination" to "Presidential Action After Tariff Commission Reports," consistent with the amendments to section 301 of the TEA.

Subsections (b) and (c) each makes a similar amendment to section 320(b) (1) and (2), respectively, of the TEA in order to conform with the criteria of eligibillity in new sections 301(c) (1) and (2) of the TEA.

Under section 302(a) of the TEA, if the Tariff Commission makes an affirmative finding with respect to a petition for tariff adjustment filed on behalf of an entire industry, the President may furnish increased import protection (e.g., increased tariffs or quotas) to the industry involved, and/or provide that the firms and workers in the industry may request the Secretaries of Commerce and Labor, respectively, for certifications of eligibility to apply for adjustment assistance. Under section 302(b) of the TEA, a firm or group of workers in the industry must be certified as eligible to apply for adjustment assistance if it demonstrates that the increased imports (which the Tariff Commission has determined in the case of the industry to result from concessions granted under trade agreements) have caused serious injury to the firm, or unemployment or underemployment of the workers, or the threat thereof, as the case may be.

The amendments to sections 302(b) (1) and (2) of the TEA make it clear that it shall be sufficient, for purposes of section 302(b) of the TEA, for the firm or group of workers to demonstrate that the increased imports have been a substantial cause of serious injury or unemployment or underemployment, or the threat thereof. In this way, whether a firm or group of workers files an original petition for adjustment assistance under section 301(a) of the TEA, or seeks to become eligible under section 302(b) of the TEA for adjustment assistance following an affirmative finding of the Tariff Commission with respect to an industry under section 301(b) of the TEA, the same degree of causality to be ascribed to increased imports will apply.

Subsection (d) amends section 302(c) of the TEA to provide four new paragraphs. New paragraph (1) provides that, after receiving a factual report of the Tariff Commission, the President shall make his determination under new section 301(c)(1) or (c)(2) at the earliest practicable time, but not later than 30 days after the date on which he receives the Tariff Commission's report, unless, within such period, the President requests additional factual information from the Tariff Commission. In this event, the Tariff Commission shall, not later than 25 days after the date on which it receives the President's request furnish such additional factual information in a supplemental report. The President shall then make his determination not later than 15 days after the date on which he receives such supplemental report.

New paragraph (2) provides that the President shall promptly publish in the Federal Register a summary of each determination under new section 301(c) of the TEA with respect to any firm or group of workers.

New paragraph (3) provides that, if the President makes an affirmative determination under new section 301(c) of the TEA with respect to any firm or group of workers, he shall promptly certify that such firm or group of workers is eligible to apply for adjustment assistance.

New paragraph (4) provides that the President is authorized to exercise any of his functions with respect to determinations and certifications of eligibility of firms or groups of workers to apply for adjustment assistance through such agency or other instrumentality of the U.S. Government as he may direct. Such agency or instrumentality may issue rules or regulations pursuant to section 401(2) of the TEA.

Section 303. Tax assistance to firms

Section 303 amends section 317(a)(2) of the TEA to conform to the new section 301(c)(1) of the TEA.

Section 304. Adjustment assistance to workers

Section 304 amends section 337 of the TEA to provide that sums appropriated pursuant to section 337 for adjustment assistance for workers may be used to pay the cost of training provided to adversely affected workers entitled to trade readjustment allowances under chapter 3 of title III of the TEA, to the extent that training resources provided under any Federal law would not otherwise be available to such workers.

TITLE IV—NONTARIFF BARRIERS TO TRADE

Section 401. Elimination of American selling price system

In general, this section provides for the elimination of the American selling price (ASP) system as a method of customs valuation. The products now subject to the ASP system are benzenoid chemicals, canned clams, wool-knit gloves, and rubber-soled footwear. As a result of the elimination of this system, these products will no longer be subject to ASP, if competitive with a domestic article, or, in the case of benzenoid chemicals, to U.S. value as the next basis of value, if not so competitive. Instead, they will be subject to export value (or alternative bases of value in the absence of export value) in accordance with the provisions of section 402 of the Tariff Act of 1930 (19 U.S.C. 1401a).

Subsection (a) authorizes the President to proclaim such modifications of the Tariff Schedules of the United States (TSUS) as are required or appropriate to carry out two agreements concluded as part of the Kennedy round. The first agreement is the multilateral Agreement Relating Principally to Chemicals, Supplementary to the Geneva (1967) Protocol to the General Agreement on Tariffs and Trade. Under this agreement, the President undertakes to use his best efforts to obtain promptly such legislation as is necessary to enable the United States to eliminate the ASP system of valuation, as provided in part II of the agreement. Part II provides new column 1 rates for benzenoid chemicals, which shall be based on the first three alternative bases of valuation (export value, U.S. value, or constructed value) provided for in section 402 (as opposed to sec. 402a of the Tariff Act of 1930 (19 U.S.C. 1402)). Part II also provides additional tariff concessions by the United States on chemical and related articles not subject to the ASP system. Parts III, IV, and V of the agreement provide the concessions with respect to tariff and nontariff barriers which the other parties to the agreement have undertaken to make if the ASP system is eliminated.

The second agreement is the bilateral agreement with Japan, which consists of an exchange of notes. The U.S. note provides that the President is prepared to use his best efforts to obtain promptly such legislation as is necessary to enable the United States to eliminate the ASP system of valuation as it relates to canned clams and wool-knit gloves. The attachment to the U.S. note sets out the new column 1 rates for these products, which shall be based on export value (or alternative bases of value in the absence of export value) in accordance with section 402 of the Tariff Act of 1930. The Japanese note provides the tariff concession which Japan is prepared to make if the ASP system is eliminated.

Subsection (b) concerns the last class of products now subject to the ASP system—rubber-soled footwear. These products were not included in any Kennedy round agreement providing for the elimination of ASP. Accordingly, paragraph (1) authorizes the President to enter into an agreement with respect to rubber-soled footwear. This agreement would provide for two new items in the TSUS to replace the present single item covering such footwear. The two new article descriptions were set forth by the Tariff Commission in its report of August 1966, concerning investigation No. 332–47. In addition, the agreement would provide that the rates of duty for the two new items shall be based on export value (or alternative bases of value in the absence of export value) in accordance with section 402 of the Tariff Act of 1930.

Paragraph (2) authorizes the President to proclaim such modifications of the TSUS as are required or appropriate to carry out such agreement, so long as two conditions are met. First, the modifications must not become effective earlier than January 1, 1971. Second, the new rates of duty for column 1 must not be lower than the rates specified in the act.

Subsection (c) provides that, in a proclamation issued pursuant to section 401, the President is authorized to simplify the TSUS by consolidating article descriptions, but without changing rates, with respect to articles which will be subject to full concession rates of duty (i.e., the final rates set out in the applicable agreements) that are identical to one another in column No. 1 and to rates of duty that are identical to one another in column No. 2. Any such consolidation shall become effective on the date the full concession rates become effective for such articles. This subsection is designed to insure that the President has the authority to consolidate provisions bearing the same rates of duty following the elimination of the ASP system and thereby to simplify customs administration.

Subsection (d) authorizes the President at any time to terminate, in whole or in part, any proclamation issued pursuant to section 401.

Section 402. Application of related provisions

In general, this section provides for the treatment of column 1 rates of duty proclaimed pursuant to section 401 under three related provisions of law.

Subsection (a) is intended to insure that the present rates of duty based upon ASP will not continue to qualify as rates existing on July 1, 1962, for purposes of the tariff-reducing authority in the TEA even after the ASP system is eliminated. In order to avoid such a possibility, subsection (a) deals with section 256(4) of the TEA, which defines the term "existing on July 1, 1962" as it applies to the 50 percent limitation on tariff reductions under section 201 of the TEA. Subsection (a) provides that for purposes of section 256(4) of the TEA the column 1 rates existing on July 1, 1962, shall, in effect, be two times the full concession rates (i.e., the final rates set out in the applicable agreements) proclaimed pursuant to section 401. Accordingly, if, for example, one of the new column 1 rates were increased and the President subsequently wished to reduce it under section 201 of the TEA, he could reduce it to a level no lower than the actual full concession rate.

Subsection (b) provides that a rate of duty proclaimed pursuant to section 401 shall be treated as a concession granted under a trade agreement for purposes of the provisions of title III of the TEA related to tariff adjustment. In particular, this would permit an industry to file a petition with the Tariff Commission alleging, in effect, that a rate of duty proclaimed pursuant to section 401 has been the major cause of increased imports and that such increased imports have been the major cause of serious injury to that industry.

Subsection (c) provides that a rate of duty proclaimed pursuant to section 401 shall be treated as a rate of duty proclaimed pursuant to a concession granted in a trade agreement for purposes of general headnote 4 of the TSUS. As a result, by operation of paragraph (b) of general headnote 4, during such time as a column 1 rate proclaimed pursuant to section 401 is, for a few benzenoid chemicals, higher than the column 2 rate, the column 2 rate will in effect be increased to the level of the column 1 rate. Moreover, by operation of paragraph (d) of general headnote 4, if, for example, a full concession rate proclaimed pursuant to section 401 were terminated under section 402, the column 2 rate would apply.

Section 403. Consequential amendments of Tariff Schedules of United States

In general, this section makes three kinds of amendments to the TSUS which are consequential upon the elimination of the ASP system. These statutory amendments relate to the four parts of the TSUS providing for the four categories of articles subject to the ASP system and complement the President's proclamatory modifications of the TSUS under section 401 with respect to column 1 rates of duty.

First, all four paragraphs of section 403 establish new column 2 rates for the four categories of articles now subject to ASP and, by an increase over the present column 2 rates in certain cases, adjust for the lower bases of customs valuation that will apply. Second, all four paragraphs of section 403 delete the headnotes in the TSUS which now provide for the application of the ASP system to both column 1 and column 2 rates applicable to the four categories of articles. Third, the last three paragraphs of section 403 in effect remove benzenoid chemicals, rubber-soled footwear, and wool-knit gloves, respectively, from the so-called final list, whereby these articles are valued for customs purposes on the basis of section 402a of the Tariff Act of 1930 (canned clams are not subject to the "final list"). They do so by substituting for the ASP headnotes new headnotes providing that both column 1 and column 2 rates shall be based on export value (or alternative bases of value in the absence of export value) in accordance with section 402 of the Tariff Act of 1930.

Section 404. Consequential amendments of other provisions of Tariff Act of 1930

In general, this section makes several amendments to the Tariff Act of 1930 which relate to three sections of that act dealing with the ASP system and which are consequential upon the elimination of the ASP system. These amendments all become effective as of the date the ASP system is eliminated pursuant to section 401 with respect to the last of the articles now subject to that system.

Paragraph (1) amends section 336 of the Tariff Act of 1930 to remove from that section the authority to use ASP in equalizing costs of production between a domestic article and a like imported article. Section 336 can be applied only to the few articles in the TSUS which are not subject to a tariff concession. This amendment insures that, once the President has eliminated the ASP system with respect to all the articles now subject to that system, the ASP system cannot be established by Executive action with respect to any article.

Paragraphs (2) and (3) amend sections 402 and 402a, respectively, of the Tariff Act of 1930, in order to eliminate ASP as an alternative basis of valuation. This is a formal amendment eliminating the provisions concerning ASP in sections 402 and 402a which will in any case have become inoperative by virtue of the President's proclamations pursuant to section 401 and the amendments to the TSUS made by section 403(a).

TITLE V—ADJUSTMENT ASSISTANCE FOR FIRMS AND WORKERS IN AUTOMOTIVE INDUSTRY

Section 501. Adjustment assistance for firms and workers in automotive industry

Section 501 amends section 302(a) of the Automotive Products Trade Act of 1965 in order to extend the adjustment assistance program under that act for firms and workers in the automotive industry for another 3 years, i.e., until July 1, 1971. Accordingly, petitions for a determination of eligibility to apply for adjustment assistance may be filed at any time during such additional 3-year period.

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The CHAIRMAN. We are pleased this morning to have you gentlemen with us and we will ask the Secretary of Commerce to make the opening statement, and I want to take the occasion this morning to welcome back to the committee in his present capacity the Secretary of Commerce.

I remember he has testified before the Ways and Means Committee in the past as a very distinguished businessman and at that time head of one of our very fine American airlines. Mr. Smith is to me the type of individual that has made America great in that he had a dream one time, and I don't know how you accomplished it except by hard work and maybe by borrowing from all your friends to get an airline started, but certainly you have made your mark in business, and I am certain that you will go down as a very fine Secretary of Commerce.

We appreciate having you with us.

STATEMENTS OF HON. CYRUS R. SMITH, SECRETARY OF COMMERCE; HON. STEWART L. UDALL, SECRETARY OF THE INTERIOR; HON. W. WILLARD WIRTZ, SECRETARY OF LABOR; AMBASSADOR WILLIAM M. ROTH, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS; ACCOMPANIED BY HON. LAWRENCE C. McQUADE, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, DEPARTMENT OF COMMERCE; HARALD B. MALMGREN, ASSISTANT SPECIAL REPRESENTATIVE, AND JOHN B. REHM, GENERAL COUNSEL, OFFICE OF SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS; AND FRED B. SMITH, GENERAL COUNSEL, DEPARTMENT OF THE TREASURY

Secretary SMITH. Thank you, sir.

The CHAIRMAN. You are recognized, sir.

Secretary SMITH. Thank you. Mr. Chairman and members of the committee, this committee will be examining in this hearing a number of proposals of great consequence to the future course of our trade policy. Before turning directly to that issue, could I give you a brief review of our foreign trade account in recent years, to provide a background which I hope will be helpful to you in your considerations?

EXPORTS

When we view the total of our exports, some refreshing figures are available, indicating a substantial growth. In the first 4 months of 1968, our trade advanced to new records, with exports at an annual rate, seasonally adjusted, of $32.7 billion, 6 percent above the value for 1967.

Exports have been growing strongly since 1960. The annual rate of growth from 1960 through 1967 was 6.7 percent. Expressed in dollars, our exports in 1960 were $19.6 billion and $30.9 billion in 1967.

At the end of 1967, exports exceeded imports for all of our principal trade areas of the world with the exception of Japan.

When we examine the detail of our exports, it is clear that the composition of our export trade has been shifting, so that capital goods with a high technology content are much more important.

Last year exports of capital goods reached $10.3 billion, compared to $5.9 billion in 1960. These exports included $790 million in aircraft, $432 million in computers and parts, $555 million in broadcasting and related equipment, $519 million in measuring and control instruments, $408 million in office machines, $463 million in machine tools and metalworking machinery and $302 million in heavy electric equipment.

In industrial materials, which include raw materials as well as semifinished goods, exports advanced strongly between 1960 and 1967.

In the area of consumer goods, other than automobiles, the total value of exports has grown from $1.4 billion in 1960 to $2.1 billion in 1967, an increase of about 50 percent.

IMPORTS

Our imports have grown even more rapidly than our exports, increasing from $15 billion in 1960 to $26.8 billion in 1967. The average annual rate of increase was 8.6 percent. The increase in imports over the last several years has been caused in large part by an inflating domestic economy.

In the last several quarters the copper strike and the threat of a steel strike later this year contributed to the sharp rise in imports. As a result of the copper strike, imports surged and our trade balance was reduced by some $500 million.

Total imports of cotton, wool and manmade fiber textiles represent about 8½ percent of domestic consumption. Imports of these yarns, fabrics and apparel increased from $450 million in 1961 to over $1 billion in 1967. Exports appear to have leveled out at around $450 million.

OVERALL EFFECT

In 1960 the United States had 18.1 percent of the total free world exports. This declined to 16.6 percent in 1967. Various factors contributed to this development. Some of our principal export markets, such as Latin America, have grown slowly in this decade. The export capabilities of several of our major industrial competitors have been built up rapidly.

WHAT ARE THE BASIC PROBLEMS?

Nearly everything we do in our economic life has some effect on our desire and ability to export, and our desire and ability to import. I am not wise enough to list and discuss all of the contributing elements. And, if I were, time would not permit an adequate discussion of all of them today.

One of the principal elements is that our foreign trade is paying a part of the cost of rising inflation. For quite some time now wage increases and price increases have been chasing each other around in a vicious circle.

Recent wage increases, on the whole, have outstripped gains in productivity. In the manufacturing sector, compensation per man-hour went from an index of 135.5 in 1966 to 143.6 in 1967 and to 150.3 for the first quarter of 1968.

Output per man-hour went from 131.7 for 1966 to 132.1 for 1967 and to 134.3 for the first quarter of 1968. As a result, unit labor costs increased from 102.9 in 1966 to 108.7 in 1967 an to 111.3 in the first quarter of 1968. These increasest in cost contributed, of course, to price increases. And price increases stimulate further wage increases.

Inflationary trends hit foreign commerce with great impact. First, they raise our own selling prices and narrow our competitive ability. Second, increased prices in our domestic markets make it easier for foreign competitors to invade U.S. markets. In many areas of the world and in certain product lines we are pricing ourselves out of world markets. Our selling prices are ceasing to be competitive.

The United States has been moving ahead toward full employment and a boom-time economy, conditions which lift the demand for imports and inhibit exports.

Our increasing prosperity has put us in shape to be able to afford the purchase of imported products. And the strength of demand in the domestic market has removed some of the incentive for our manufacturers to take on the often more difficult and more competitive markets overseas. Why go overseas when profitable production and sales can be realized in the domestic market?

WHAT ARE THE ANSWERS

1. We must slow down the rate of inflation. The passage of the tax bill will aid but, even with that, the route back to price stability will be long and difficult.
2. We must endeavor to be more productive, hoping that the gains in output—increases in productivity—will more nearly equal increases in compensation.
3. We have done a good job in whittling down the tariff barriers to the free interchange of trade. But we must do a better job in eliminating nontariff barriers which limit our ability to compete and to export. Free trade is never really free trade unless there is reasonable freedom, or at least equitable treatment, in the access to markets.
4. We must become more competitive and more ambitious. The U.S. industrial machine is too big to be supported by domestic commerce alone. We must seek new markets abroad, and U.S. industry must be able to compete abroad on the basis of quality and price.
5. We should not permit conditions to originate or to continue which are likely to provoke world trade wars. We are the world's largest merchant; trade wars would damage us more than any of our competitors.

TRADE POLICY

Since the days of President Roosevelt, without exception, each succeeding President has recommended to the Congress and to the country that we continue our efforts, with the help and friendship of our trading partners, to reduce the impediments to freedom of trade between participating nations.

We have made some real progress in the reduction of barriers to free trade and other opportunities lie immediately ahead. We are on the right course, I believe, and I know of no good reason to support a belief that we should now depart from our policy or abandon our long desired objectives.

I do recognize the danger to our commerce in nontariff barriers. We must make an even greater effort to minimize their impact. There are too many of these, some well concealed. They should be brought out into the open and eliminated as quickly as possible.

We have, of course, some nontariff barriers of our own and they may fall in the general rearrangement. But, on the whole, we should come out on the plus side, perhaps substantially so.

IMPORT RESTRICTIONS

A widespread adoption of import restrictions would represent, in net effect, a confession that we cannot compete with other nations and we retire from the field. As the leading trading nation of the world, I doubt that we could do this, even if we were willing, without serious and lasting damage to our national welfare.

If there are situations where some element of protection is needed and proof of that need is made, we already have a number of legal powers which can provide a degree of protection and assistance. And the ability to provide that aid is enhanced by the provisions of the legislation now before you.

We have some quotas now in existence but we should approach with caution the creation of others. A quota system says, in effect, that we will fence off a very substantial part of a domestic market and shield that part from the direct effects of foreign competition.

It may not be a good omen for the future of U.S. foreign trade if a substantial proportion of our industry seeks to reserve for itself, through quotas, a significant part of the domestic market.

We have the further question, and the more important one: Will we ever create a strong, growing and competitive U.S. industry if each year there must be additions to the list of those who seek protection from competition?

THE TRADE BILL PROPOSED

The Department of Commerce supports the provisions of the trade bill before you, as providing the tools for creating a world trading environment in which American business and American labor can participate equitably in the great benefits of expanding world trade.

I will not now discuss the detailed provisions of the legislation, because others, on behalf of the administration will do that.

Likewise, others who will appear before your committee will discuss the American selling price with you in detail. It may suffice for me to say that if some other country had an identical provision in its trade policy, we would believe it unjust, discriminatory and a bit nonsensical in the world climate of today.

There is no good reason, in my opinion, for its retention in our trade policy. As a result of our negotiations, we are now in a position to trade it for something more logical and more profitable, provided Congress agrees.

I hope that you will favorably consider this legislation and pass it at this session of the Congress.

WHAT IS THE DEPARTMENT OF COMMERCE DOING TO STIMULATE FOREIGN TRADE?

The Commerce Department's export expansion program includes a variety of tried and proven overseas promotional techniques, commercial information services and programs for direct stimulation of U.S. business interest in exporting.

Our major overseas promotions return about $15 in export sales for each Government dollar spent. About half of these funds are spent in the United States, for promotional material, giving a balance-of-payments return of about $30 in export sales for every Government dollar spent abroad. We calculate that these programs generated over $100 million worth of export sales in 1967.

Increased emphasis on export promotion is critical to the success of the President's balance-of-payments program announced on January 1.

For this purpose the President asked Congress to support a 5-year, $200 million Commerce Department program for systematic long-term development of export markets. The President also asked the Congress to establish in the Export-Import Bank a $500 million set-aside account to equalize U.S. Government assisted financing arrangements for foreign trade with those available in other competitive countries.

As the first phase of the new 5-year trade promotion program, the President requested supplemental funds for fiscal year 1968 and funds for fiscal year 1969 which would double the Department's budget for export expansion activities.

The impetus originally conceived for this program will have to be moderated in view of the current budget reductions. Yet the longer range plan remains. Over the 5-year period the Commerce program calls for:

—A doubling of our commercial exhibitions in our trade fairs and trade centers overseas, with a trebling of business participation.

—A substantial increase in other trade promotion activities such as trade missions.

—A new Joint Export Association program for cooperative Government-industry export market development.

—The development jointly with industry sectors of 5-year export target objectives to meet the national export expansion goal.

The objective of this program is to make exports grow at a rate faster than the general growth of our economy. If the United States can raise the proportion of exports to gross national product from the recent average of 4 percent to 4.3 percent by 1973, without a parallel rise in imports, this would go far toward bringing our international accounts into balance and thereby lessen or eliminate the need for restrictive balance-of-payments measures.

Export promotion does make a valuable contribution toward assisting our declining trade surplus, even in the short run. Yet the more important impact of such efforts will be long range. To be successful, export promotion activities need to be stepped up and to evoke concerted and sustained efforts by U.S. business and Government.

CONCLUSION

We are at a stage when it is important to the Nation that we focus on our role in international trade. We have the opportunity, as businessmen, Members of Congress, and officials of the Government, to deal with the need to increase our national trade balance by either positive or negative means.

I strongly believe that the right course for the country is the positive course. Therefore, as I urge each American businessman to make greater efforts in export markets, I urge the Congress to enact the President's trade bill and to turn aside the many proposals seeking to deal with our current trade problem in negative terms.

The CHAIRMAN. Thank you, Mr. Secretary. Our next witness is the Secretary of the Interior, a longtime friend of many members of our committee and former Member of the House, the Honorable Stewart L. Udall. We appreciate having you back with us. You are recognized.

STATEMENT OF HON. STEWART L. UDALL, SECRETARY OF THE INTERIOR

Secretary UDALL. Thank you, Mr. Chairman. Mr. Chairman and distinguished members of this committee, thank you for giving me the opportunity to comment on the vital issues before you. The Nation owes a debt of gratitude to the committee for its wisdom in exploring at this time all aspects of future U.S. trade policy.

The timeliness of your review of the Nation's trade policies and trade programs cannot be too strongly underscored:

A highly successful tariff negotiation has been concluded in the so-called Kennedy round.

Since the conclusion of the Kennedy round, the United States has been laying the groundwork for a substantial attack on nontariff barriers to its trade in world markets.

At the request of the President, the Special Representative for Trade Negotiations, Ambassador William M. Roth, is conducting an intensive review of our trade policies and programs.

Just last week, President Johnson sent to the Congress a trade bill with essential authorities to carry forward our trade program. I strongly urge enactment of that bill.

This committee now has before it a host of so-called quota bills.

All of the foregoing emphasizes the importance of the work on which your committee is embarking. The direction we choose or the direction in which we appear to be headed will greatly affect our ability in the coming months to influence our trading partners and to reassure them of the stability of our course. At the same time, your hearings are a natural counterpart to the executive branch studies headed by Ambassador Roth. I am convinced that out of these simultaneous efforts the essential reassessment of our trade policy will be soundly made and the Nation's course soundly set.

As for matters under my authority, I am particularly concerned that action to erect more barriers at this time would incite retaliation from abroad with respect to commodities which we export.

There are two commodities, Mr. Chairman, that my Department has particular interest in and responsibility for. Coal is one and oil is the other. I want to mention them specifically.

Coal is a good case in point. We have ample reserves of coal which can compete effectively in the world marketplace, provided artificial trade barriers are not erected. But if we place impediments in the path of international trade, are we not inviting—indeed insuring—similar action by other countries?

Exports of U.S. coal earn about one-half billion dollars annually as a credit toward U.S. balance of payments. During the past 5 years coal exports have stabilized at approximately 50 million tons annually—an unprecedented level in a nonemergency period. This remarkable record has been achieved despite the existence of coal trade barriers in several major importing countries. To most nations in which barriers do not exist or have been relaxed, U.S. coal has registered significant gains. There are positive indications of further relaxation, we believe, in the next few years.

Recent studies of foreign market potentials for U.S. coal indicate possibilities for increasing exports to 80 million tons or more annually, provided we are not prevented from competing because of retaliatory restrictions.

To be sure, however, restriction of imports of products to this country would tend to create more restrictive coal import policies in other countries. More importantly, such action would encourage the adoption of restrictive policies by countries which are now increasing their imports of U.S. coal.

As a conservationist, I am struck by the wastefulness of quotas and other types of import restrictions. As a consumer, I am appalled by the damage they cause me and millions of other consumers. These serious deficiencies of quotas were forcefully driven home to me in a recent release which passed over my desk, issued by the American Importers Association—"Here's What's Wrong With Import Quotas." The "wrongs" of quotas may be briefly summarized as follows:

Quotas increase inflationary pressures by restricting competition and thus increasing prices here at home.

Quotas weaken American balance of payments by decreasing the ability of foreign countries to earn dollars to buy U.S. goods and by decreasing U.S. firms' ability to compete because of higher prices of U.S. goods.

Quotas limit the consumer's choice.

Quotas restrict American manufacturers' sources of supply.

Quotas disrupt supply and demand.

Quotas favor special interest.

Quotas inject more politics and Government control into the economy.

Quotas require more Government administrators.

Quotas proliferate and endure.

Quotas are arbitrary and discriminatory.

Quotas will hurt American relations abroad and could start a worldwide trade war.

Quotas make the least economic sense among the various ways of helping industries adjust to import competition. They provide an absolute limitation upon trade. As such, they interfere far more drastically with market forces than do tariffs. The foreign exporter cannot surmount quotas no matter how much he increases his efficiency, reduces his costs, or otherwise improves his product.

Quotas would tend to place domestic producers in a monopolistic position and remove the competitive spur to search for and to supply technological developments. We could expect higher material costs to domestic consuming industries producing goods for domestic consumption and export. In the final analysis this would require higher domestic prices to ultimate consumers and a less competitive position for goods exported by the United States.

I would like to comment on one other serious drawback as it appears to me of quotas as they affect my area of responsibility and that is their inflexibility. For example, if quotas on lead and zinc were required by law, situations would likely arise that would result in chaotic on-and-off quota determinations out of phase with requirements. Similarly, under the present system of regulating petroleum imports the President can mage changes as needed to cope with problems as they arise, such as those originating from changing supply-and-demand conditions. Enacting petroleum import control regulations into law would freeze the system into a rigid, inflexible pattern which could not be modified except by further act of Congress.

Trade restrictions have been covered in general; however, I should expand on one point. I am speaking of an exception under the General Agreement on Tariffs and Trade. Quotas are illegal under GATT except for certain specified circumstances. One of these exceptions is the national security of the nation involved; oil falls under this exception. Imports of oil from abroad are controlled—and are permitted entry only within a quantitative restriction.

I would like to state here my firm view after administering this program for the last seven and a half years that in the present world petroleum situation oil imports should be controlled in the interests of our national security. That is the paramount—the only—reason why such imports are controlled. In no sense does this position alter my views with respect to opposing trade barriers generally. But in the case of oil, our security would be jeopardized unless we have a strong, healthy, domestic oil industry, capable of meeting any demand. Adequate domestic supplies depend upon exploration and discoveries and these activities will not be carried on in the absence of an adequate market for domestic production.

The relationship between our national security and adequate supplies of oil is clear. On this score, it suffices to point out that oil is practically the sole source of energy for transportation—both civilian and military.

As members of this committee well know, after an experience with a voluntary program a mandatory oil quotas program was instituted in 1958. We had 10 years of experience under three Presidents and three administrations with this program.

It was with these circumstances in mind that in 1957 the President's Special Committee To Investigate Crude Oil Imports reported to President Eisenhower as follows:

> Your committee recognizes that there are important foreign policy aspects to the problem of limiting petroleum imports. The oil reserves and production capacities of other free nations, as well as our own, are important to our national security. A number of countries inevitably depend in varying degree upon access

to our domestic market for their petroleum exports and it must be recognized that it is also in the interest of our national security that our allies and friends have healthy and expanding economies. It is believed, however, that taking all factors into consideration, our national security requires the maintenance of some reasonable balance between imports and domestic production at this time. In light of the foregoing considerations, our recommendations are framed with the objective of limiting imports in order to maintain such a balance and yet to allow other nations to participate in the growth of our domestic demand to a degree consistent with our national security.

An attempt was made to attain a reasonable balance through the voluntary program recommended by the committee. The attempt failed. The President was advised by the Director of the Office of Civil Defense and Defense Mobilization that in his opinion "crude oil and the principal crude oil derivatives and byproducts are being imported in such quantities and under such circumstances as to threaten to impair the national security," and mandatory controls were imposed under the authority of the Trade Agreements Extension Act of 1958.

In my judgment, the recent Mideast crisis had no harmful impact on our economy or on our ability to carry on the conflict in Vietnam largely because the United States was not dependent upon foreign oil. Our oil industry was healthy and capable of meeting the increased demands placed on it, including assistance to Canada and Western Europe.

Shortly after the mandatory program began, it was felt that the national security aspects of the program made it necessary to recognize the relative security of Western Hemisphere oil production which could be delivered directly to the United States by land. Recognizing this fact of life, the Presidential proclamation was almost immediately amended to exempt from licensing requirements oil imported overland from the country of origin. Even imports from Canada and Mexico, however, have been controlled.

Flexible controls on oil imports maintained through administrative techniques under the mandatory program have worked extremely well for nearly a decade in my opinion. I submit that experience under three Presidents shows clearly that the flexibility inherent in the present program has enabled us to achieve its national security objectives.

I wish to stress that the national security foundation of the mandatory oil import control program requires that we preserve to the greatest extent possible a vigorous, healthy, petroleum industry in the United States, while we, at the same time, prevent serious dislocations in oil industries elsewhere which also have an impact bearing on our own security. Our security also includes the security of other areas. This philosophy, most recently, was the basis for activating the voluntary agreement under the defense production act to assure adequate petroleum supplies to Western Europe and other free countries of the world a year ago during the Middle East crisis.

Other oil producing areas, particularly those in the Western Hemisphere, are our good customers for exports of all products, Canada and Venezuela most notably. We are convinced and emphasize therefore that imposition of rigid controls pursuant to fixed formula would not only result in serious repercussions in our foreign relations, but would adversely affect continued growth of our exports by inviting retaliatory action on the part of our major trading countries.

We have maintained imports administratively over the whole period of the program at about 12.2 percent of domestic production. That is in the whole eastern part of the country. We have a special program on the west coast. Our principal concern in Interior is a means of increasing our reserves, and maintaining our productive and refining capability looking toward the future ever increasing demand for petroleum energy.

A review of the past indicates we have succeeded in maintaining a healthy petroleum industry which within the past year has demonstrated its ability to meet an international petroleum emergency. This has been done under the existing program. We believe that enactment of restrictive legislation would serve no beneficial purpose but would only make it more difficult to meet unexpected contingencies.

I would like to conclude my remarks by saying that the opportunities before us to contribute to the welfare of this country through trade are great. We will all agree that trade in products of commerce is a vital goal contributing to peaceful relations among nations. I am convinced that the distinguished members of this committee will not let temporary aims get in the way of this admirable long-term goal. This goal is within our reach and can be attained through the administration's trade legislation that President Johnson proposed to Congress last week.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Secretary.

Our next witness is the Secretary of Labor, the Honorable W. Willard Wirtz. We appreciate having you back with us, and you are recognized.

STATEMENT OF HON. W. WILLARD WIRTZ, SECRETARY OF LABOR

Secretary WIRTZ. Thank you, Mr. Chairman. I will be glad to handle this is whatever way best meets the committee's convenience. I believe I can summarize the statement quite shortly and ask that it be included in its entirety in the record.

The CHAIRMAN. Without objection it will be included in the record following your summation.

Secretary WIRTZ. Our position picks up from our discussion before this committee some 6 years ago and so there is relatively little new involved here. The position which I present, Mr. Chairman and members of the committee, is this: that the Trade Expansion Act of 1968 does represent basically a continuation of the previous policies of the country, that it represents an affirmative contribution to those policies; and that the situation does not require or warrant resort to the quota approaches or proposals which are before the committee. Therefore I testify in support of H.R. 17551 and in opposition to the quota proposals.

I can be of most value to the committee in connection with the identification in the clearest possible terms of the relationship of this legislation to employment which is my particular responsibility.

Our employment in this country depends to the extent of approximately 7 percent as far as manufacturing industries are concerned, upon exports. The total number of jobs which are involved in U.S. exports of goods and services has increased by about 150,000 between 1960 and 1965.

It is my position, strongly urged upon the committee, that although restrictive provisions of one kind or another might decrease unemployment in particular industries they would increase unemployment in American industry as a whole because of the reciprocal effect against our exports.

Putting it differently, and emphasizing the point as strongly as I can, I think employment in this country will be maximized by a reduction in trade barriers and that net unemployment will be increased by the imposition of trade barriers.

That will obviously not be true in particular industries.

I think this is important, exceedingly important, as far as the total picture is concerned. I would, therefore, urge upon the committee, as strongly as I can, the meeting of particular problems which are presented as a result of imports through the adjustment assistance provisions of the Trade Expansion Act modified as it is proposed that they be modified in H.R. 17551, such procedures will have no negative effect upon exports, would increase our employment, and will meet the problems of particular unemployment in a way which is limited to those particular situations.

We urge very strongly in this connection changes in the adjustment assistance provisions of the Trade Expansion Act of 1962. We do that for this reason. It was emphasized in 1962 that provision would be made to meet individual situations which developed under that act and which resulted in dislocation.

Twenty-five times American industry, firms, and American workers have, in the intervening years come to the Tariff Commission with requests for tariff adjustments, and other adjustment assistance under these provisions and 25 times they have been denied. Twelve of those applications were on the part of industries as a whole. Seven of them were on behalf of individual firms. Six of them were on behalf of groups of workers.

In every single instance the relief requested has been denied.

I believe that we have played false with the expectations of those who were the subject of our representations in 1962.

It is therefore urged very strongly that the provisions of sections 301 and 302 of the Trade Expansion Act be modified in these respects:

First, that the standard for the granting of relief for firms and groups of workers be modified. Summarizing and shortening the words of the statute, the present act requires that in order for there to be relief the increased imports affecting employment must be the result, in major part, of tariff concessions and the imports must constitute, in effect, the major cause of the unemployment or of the injury to the firm.

We propose substituting for that standard one which is not limited to the effect of concessions but which applies to any case of increased imports, and one in which the rule is not one of imports as the major cause of the unemployment or the injury but rather a substantial cause of the unemployment or of the injury to the firm.

The second major change involves procedures. Where the present Trade Expansion Act requires that these matters all go to the Tariff Commission, the proposal in H.R. 17551 is that the present procedure be followed in the case of applications on the part of industries as a whole but that the procedure be changed insofar as the applications come from groups of workers or particular firms for adjustment assistance. It is proposed that where the applications come from groups of workers or particular firms the application be addressed to the President instead of to the Tariff Commission.

This procedure was put into effect in 1965 to implement the United States-Canadian Automotive Agreement. This provides that the application be to the President and that upon its receipt the President shall request the Tariff Commission to make such investigation of the facts as may be appropriate in the particular case but that he act then upon the application.

In practical operating effect the pattern proposed, as indicated by the President in his message, is the procedure which has been followed in the case of the Automotive Products Trade Act. This calls for the establishment of an Adjustment Assistance Board, including the Secretary of the Treasury, the Secretary of Commerce, and the Secretary of Labor, to whom the President delegates the authority for acting upon these cases.

We also propose a change in the criteria for determining eligibility of firms and workers for adjustment assistance. At present eligibility can be found only if a tariff concession is found to be a major cause of the injury. H.R. 17551 changes this to increased imports whether or not directly traceable to tariff concessions as a substantial cause of the injury or threatened injury. Although not identical to the criteria under the act, yet, it is more nearly like it.

To give you some impression of the way in which this procedure will work as contrasted with the procedure in the Trade Expansion Act of 1962, there have been in the last 3 years, since the enactment of the Automotive Products Trade Act of 1965, 21 applications for assistance on behalf of workers. There has been favorable action taken in 14 of the 21 cases.

The number of employees involved is not large. It is about 2,500 over this period, but the effect of it seems to us to be of very great significance.

I should note in comparing the criteria in H.R. 17551 with the criteria established in the Automotive Products Trade Act that they are different. We are not proposing the same standard. The "substantial cause" standard is not a repetition of the Automotive Act.

In short, therefore, Mr. Chairman and members of the committee, what we are proposing is that the procedure here in H.R. 17551, be the procedure which was adopted in the Automotive Products Trade Act as far as firms and groups of workers are concerned and that the standard for relief be a substantial cause standard rather than the major cause standard as in the 1962 legislation.

Beyond that, Mr. Chairman, members of the committee, I testify in support of what is proposed in H.R. 17551 as far as the American selling price provisions are concerned.

Finally, Mr. Chairman and members of the committee, I urge strongly the extension for an additional 3-year period of the adjustment assistance provisions of the Automotive Products Trade Act of 1965 in its present form and without modifications. It is our judgment that that procedure is working well and we urge that it be extended for a period which would carry it to July 1, 1971.

Thank you, Mr. Chairman.

(Secretary Wirtz prepared statement follows:)

STATEMENT OF HON. W. WILLARD WIRTZ, SECRETARY OF LABOR

Thank you Mr. Chairman and Members of the Committee, for the opportunity to express my views on our foreign trade policies.

I will confine my remarks largely to the employment aspects of our trade policy and the proposed revision of the criteria for eligibility of firms and workers to apply for assistance in adjusting to increased import competition.

The Trade Expansion Act of 1968 (H.R. 17551) is a continuation of policies which over the years have contributed to the creation of job opportunities in a growing economy.

The lowering of world-wide trade barriers will provide improved access to foreign markets and stimulate job opportunities in our major export industries. It has long been recognized that increased imports are a necessary concomitant of expanded exports. Furthermore, in today's economy, imports have a clear relationship to the issues of economic stabilization which we face.

In general—although obviously not in particular situations viewed separately—the lowering of trade barriers increases, rather than reduces, net employment.

In recent years expanded trade and high employment have gone hand in hand. Our current employment problems result in large measure from the inadequate development of our own human resources. There are too often jobs available but no qualified workers available to fill them.

In a competitive society such as ours we do not, in my judgment, need the kind of broad import controls incorporated in the quota proposals before this Committee. Existing trade policy, with the modifications proposed in H.R. 17551, provides the means to safeguard industry and workers against adverse import competition.

We have better direct measures of the effects of exports than of imports. In the case of manufacturing almost seven percent of total employment is directly related to exports. In some industries exports account for better than one out of every ten jobs. For example, in 1965, almost 45,000 jobs—one out of every four—in the construction and mining machinery industry could be attributed to exports. In aircraft there were 60,000 jobs resulting from export activities. In the machinery industry as a whole almost 350,000 jobs—or slightly better than 10 percent of the total—were traceable to exports. For paper industries the figure was 10 percent. In the chemicals and synthetic materials the ratios are 16 percent and 14 percent. Agricultural exports account for one out of every nine jobs in agriculture.

Wages in our major export industries such as chemicals and machinery are 10 to 25 percent higher than the average for all maufacturing.

Unfortunately, we are not able to cite in the same manner the employment consequences of imports. We recognize that some imports may cause dislocation. That is why we urge liberalizing the adjustment assistance criteria so as to deal effectively with employment dislocations resulting from import competition. But taking import and export factors together, it appears certain that a tightening up of foreign trade policy would result in fewer, not more, jobs.

Adjustment assistance provisions were included in the Trade Expansion Act of 1962 to help firms and workers faced with problems caused by the competitive challenge of increased imports. That Act represented the first United States effort to help individual firms and workers in adjusting to increased import competition.

Assistance available to workers includes: monetary payments to tide them over; training to help prepare for alternative employment; job counseling and referral; and, if desired, relocation to places where jobs are available.

To be eligible to apply for adjustment assistance under the 1962 Act, a company or its employees must demonstrate that tariff concessions have been the major cause of increased competitive imports and that these increased imports have been the major cause of the injury.

These provisions have not had the effect intended by the legislation and anticipated by American workers and firms. In practice the tests have proven to be too rigorous and too complicated. Under the Trade Act of 1962 not one petition has been approved to date. The bill now before you proposes that the criteria for eligibility to apply for adjustment assistance be made more realistic and equitable.

To accomplish this we propose elimination of the requirement that *tariff concessions* be shown to have been *the major cause* of increased imports. Relief should be available whenever *increased imports* have been *a substantial cause* of injury. Since the Trade Agreements Act was first passed in 1934, we have pursued a policy aimed at enlarging world trade and U.S. exports by reducing tariffs and other trade restrictions on the basis of reciprocity. Through this policy we have effectively reduced one or more times the duties on almost everything we import. The relationship between increased imports and the multiplicity of duty reductions and other factors affecting trade patterns make it virtually impossible to demonstrate clearly that tariff concessions have been the most important element in the import increase.

The proposal that eligibility to apply for adjustment assistance be based on a finding that increased imports have been "a substantial cause" of the injury would mean that it would not be necessary that the effect of the increased imports be greater than that of all other causes, or greater than any other single cause—but rather that they be an actual and considerable cause.

I want to emphasize that only the eligibility requirements for groups of workers would be changed. The conditions that individual workers must meet to receive assistance would remain unchanged.

For example, to qualify for adjustment assistance a worker would still be required to have been gainfully employed for at least half the preceding three years and have worked for an adversely affected firm for half the previous year.

Finally, we are recommending that determinations of eligibility for firms and workers to apply for adjustment assistance be made by the President on the basis of a factual investigation by the Tariff Commission. The President has indicated his intention to pattern the administration of this program on the Automotive Products Trade Act of 1965. Determinations of eligibility will be made jointly by the Secretary of Labor, Commerce, and Treasury.

The adjustment assistance program does not have a direct effect on the agreements with trading partners or on our exports. It avoids, therefore, the issue of compensatory duty chances or retaliatory action.

It is our belief that these changes in the criteria and procedures will insure that the intent and promise of the program can be realized. That these changes will work can be seen in the results of the Automotive Products Trade Act of 1965. There the criteria and procedures were designed to reflect the particular nature of the U.S.-Canadian Automobile Agreement and the industry involved. Under the terms of that act certifications have been issued in 14 of 21 cases—covering approximately 2,500 workers. The cost over 3 years has been about $3.5 million.

It is difficult to estimate the caseload that would develop under the proposed revised standards in H.R. 17551. The pattern of increase in imports and their impact on firms and workers are influenced by factors other than tariff changes. Such variables as the general level of economic activity and the flexibility of U.S. producers are important. We estimate that about 10,000 workers per year would become eligible to apply for adjustment assistance. The gross annual costs for adjustment assistance to workers will be around $10 million. The net costs will, of course, be less since workers who draw trade readjustment allowances would not usually collect Unemployment Insurance. These estimates reflect our experience under the Automotive Products Trade Act and the record of applications for certification filed by groups of workers under the Trade Expansion Act of 1962.

H.R. 17551 proposes the elimination of the American Selling Price system of import valuation. This system now applies to rubber-soled footwear, certain benzenoid chemical products, canned clams, and one extremely low-priced type of woolen glove. The elimination of the ASP system would result in important reciprocal concessions from our trading partners.

These would include further reductions of chemical tariffs abroad and important concessions in some foreign non-tariff barriers to our exports. Our judgment is that implementation of this proposal would, in the long run, result in a net increase in U.S. employment.

Such dislocation as results in particular industries will be handled under the revised adjustment assistance program for firms and workers.

* * * * * * *

I urge the extension for three years of the adjustment assistance provisions of the Automotive Products Trade Act of 1965. These provide assistance for the kinds of dislocation resulting from the U.S.-Canadian Automotive Products Agreement.

Special assistance provisions of the Automotive Products Trade Act were considered necessary because of these factors:

1. The U.S.-Canadian Agreement required immediate, complete elimination of duties on certain automotive products shipped between the two countries.

2. The transitional adjustment assistance procedures in the Act which will be extended by the bill take into account the fact that dislocation may result not only from an increase in imports from Canada, but from a loss of the exports of a specific product.

3. Dislocations and temporary injury may occur under the Agreement as parts and component supply sources are shifted either within each country or between countries to take advantage of the lower costs and potential improvements in efficiency made possible by the Agreement and to carry out the temporary undertakings made by the Canadian producers.

Many of the auto cases handled to date would not be covered by the proposed assistance provisions of the Trade Expansion Act of 1968, which are geared solely to injuries arising from increased imports.

The U.S.-Canadian Agreement was an innovative action in the field of international economic relations when it was signed in January 1965. It continues to demonstrate the mutually beneficial results which two coutnries can achieve in improving their trade relations.

The maximum benefits of this program have not yet been realized. The Agreement has not been in effect long enough for the rationalization program of shifts of production to be fully completed. In addition, the slow-down in United States vehicle sales in model year 1967 inhibited transfers of production among plants as well as between the U.S. and Canada. Manufacturers may be expected to continue to rearrange their production and purchasing patterns to participate more efficiently in the expanded U.S.-Canadian market.

This promising outlook for the future carries with it the need to assure that dislocated firms or workers are not ignored while the industry as a whole continues to develop and prosper. The adjustment assistance provisions terminate July 1, 1968. We should be able to continue to offer assistance if even a few cases of dislocation should occur. I therefore urge that these special provisions be extended for three years—to July 1, 1971.

In order to stimulate the healthy economic growth of the U.S. and maintain and enlarge foreign markets for the products of our businesses, mines, and farms, we must strengthen our economic relations with foreign countries through the development of open and non-discriminatory trading in a free world. This kind of trade policy holds the best promise for expanding employment opportunities in the wide range of industries involved in international trade.

The CHAIRMAN. Thank you, Mr. Secretary, and our next witness is the special representative for trade negotiations, Ambassador William M. Roth.

We appreciate having you back with us, Ambassador. You are recognized.

STATEMENT OF HON. WILLIAM M. ROTH, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

Ambassador ROTH. Thank you, Mr. Chairman and members of the committee, for giving me this opportunity to present some general views to this committee at this time.

Tomorrow I hope to have the opportunity to go into further and, of necessity, rather exhaustive detail.

These hearings are taking place 1 year after what was probably the most critical period in the negotiation of the Kennedy round. Just a year ago, no one could be certain that the negotiators would reach agreement. But a few weeks later we had the satisfaction of concluding it. I was convinced then and am today that what we obtained was a valuable bargain for the United States—not only in terms of the long-run promotion of American interests but in terms of our trade prospects in the immediate future.

Let me mention a few highlights. The external tariff of the European Economic Community was reduced on over $10 billion of its import trade, including reductions on 87 percent of its dutiable imports from the United States. Sixty-three percent of the tariffs involved in the reductions on U.S. trade were cut by 25 percent or more, and 43 percent were cut at least in half. In the Kennedy round, we made deep inroads into the trade advantages that each of the member states of the European Economic Community has in the markets of the others.

In addition to $2.7 billion of our exports to the European Economic Community that will receive more favorable treatment, $1½ billion of our exports to Canada will benefit—$886 million to Japan, $888 million to the United Kingdom, and $700 million to other EFTA countries. Altogether, as a result of the Kennedy round, more than $7½ billion of U.S. exports will receive more favorable tariff treatment in the markets of the world. While a few of the Kennedy round participants put the first 20 percent of their tariff reductions into effect on January 1 of this year, including ourselves, most of the concessions we obtained will begin to take effect on the first of this July, when the other countries will put into effect the first 40 percent; that is, two steps, of each of their tariff reductions.

Improved tariff treatment, however, is not the only benefit we will receive. We obtained agreement on an antidumping code that will insure American exporters against arbitrary antidumping action or procedures in other countries. If Congress accepts the conditional chemicals agreement which is here before this committee as a part of the bill, we will also obtain the removal of nontariff barriers restricting American automobile exports and improved treatment for our exports of tobacco. We obtained a number of other concessions on nontariff barriers: by Austria, elimination of the discriminatory aspect of her automobile taxes; by Canada, elimination of a restriction affecting fruit imports and better tax treatment for aircraft engines repaired in the United States; and liberalization of the licensing systems of certain developing countries. Finally, we obtained agreement on an international grains arrangement that will bring higher prices for American wheat exports and commit other countries to share in the cost of food aid to needy countries.

What did we pay for these benefits to our exports? In posing this question I am not accepting the view that the U.S. economy losses when we open our markets to more imports from others. Without imports we would all be the poorer. But the question is relevant because it has been our policy to use liberalization of our trade restrictions in order to obtain liberation by others. We gave and we received reciprocity.

Before the Congress enacted the Trade Expansion Act of 1962, the administration made clear to this committee that it proposed to adopt a new method of tariff negotiation—an across-the-board tariff cut, with a minimum of exceptions. The old method of negotiation, item by item, could not possibly have brought the results that the administration and the Congress considered essential. The new approach was accepted by the GATT ministers as the basic rule for the negotiation. One result, of course, was that reciprocity must be measured in overall terms. Except for a few industries where negotiations were conducted by sector because the important participants were both large exporters and large importers, no effort was made to exchange comparable reductions on similar products.

When we decided what products to except from our linear offers, we not only held out those products explicitly reserved by the act but took great care to avoid injury to domestic industries. In making these decisions we had the benefit of the advice of business and labor groups and the expert advice of the Tariff Commission. Thousands of pages of testimony were submitted and analyzed.

But care in making our own offers was not enough to insure reciprocity. In the closing months, indeed even the closing days of the negotiation, when it became clear that some other countries were not able to match the traiff reductions we were prepared to make, we substantially reduced concessions we had offered. And where the economic conditions of domestic industries had changed since our initial offers, we withdrew concessions in order to be sure that the intent of the Trade Expansion Act was fully carried out. For example, in the final few weeks we withdrew 80 percent of our original offer in the steel sector and sharply reduced our offer covering fabricated aluminum products. We drastically scaled down our entire offer on agricultural products and our original offers on cotton textiles and textiles of man-made fibers.

The benefits of these negotiations will reach every person in the United States: the millions of workmen and farmers who produce goods for exports; the port workers and service industries that benefit from trade; industries that use imported materials; and consumers who benefit from lower prices and a wider choice of goods. And the entire economy, we believe, will benefit from the incentive to more efficient production provided by competition.

In the Kennedy round, the United States took its greatest step forward toward the objectives that have been the goal of American commercial policy for three decades—a policy adopted consciously by the Congress and the executive branch under both Democratic and Republican administrations and one in which, of course, this committee has played a leading role. That policy helped to pull us and the world out of the depths of depression and has been pursued by every administration since the first Trade Agreements Act was enacted in 1934. But we cannot afford to relax. If we hesitate in our forward movement toward an orderly trading world we are certain to slip backward. The administration bill you have before you will help to keep us headed in the right direction.

This bill is not designed, however, like the Trade Expansion Act of 1962, to present a complete program for future action. At the direction of the President, the executive branch is studying the whole area of international trading relations so that we can make at a later date overall recommendations concerning our future policy.

Our policy recommendations, when they are made, will reflect the knowledge and the concerns of Congress, business, labor, and professional groups. But in the meantime there are certain steps that cannot wait. These are incorporated in the bill that the President has asked your committee and the Congress to consider.

The bill contains provisions in three basic fields: authority that will permit the United States to continue its participation in the GATT with the necessary degree of power and flexibility; approval of the supplementary agreement concerning chemicals, arrived at during the Kennedy round; and, finally, the liberalization of the adjustment assistance provisions of the Trade Expansion Act. I should like to introduce each of these subjects briefly at this point, though I am looking forward to testifying later in greater detail.

For nearly a year, the administration has had no authority to negotiate even minor adjustments in tariffs. Although this has not proven a serious handicap so far, it is a potentially dangerous position. Restoration of the unused tariff-cutting authority, which expired last June 30, would provide the administration with the flexibility needed to protect its interests in the GATT. If the President should take action under section 351 of the act to increase a tariff bound in the GATT—or if a tariff rate should be increased because of a customs reclassification, it is important that he have the power to offer compensation. If he has no negotiating authority, we can only submit to retaliatory action by the countries adversely affected—action that could be much more damaging in economic terms to the United States than compensation.

There remains sufficient unused authority to meet this need if the expiration date in section 201(a) is extended. We are asking that it be extended until July 1, 1970. Although it is not our intention to engage in any major negotiations under such an extension, all the requirements relating to use of the authority would continue to apply.

Also related to our participation in the GATT is the proposed new section 244 of the TEA, which would provide continuing authority for the annual U.S. contribution to the GATT budget. Such a continuing authority would place our participation in the GATT on a businesslike basis. After 20 years of experience with this organization, I think we can now afford to take this step. In terms of the size of the economic stakes involved, our contribution to the GATT budget is certainly a modest one.

So that we can obtain the full benefits of the Kennedy round, the President has asked the Congress to approve the supplementary agreement concerning chemicals—general known as the ASP package. There will be more detailed testimony on this subject later. As you know, one of its principal features is the elimination of the American selling price system of tariff valuation on imports of those benzenoid chemicals, and a few other items, that are also produced in the United States. That system applies to a very small part of our total chemical imports, but it is arbitrary and unfair and has become a symbol to other countries of the worst kind of nontariff barrier.

It cannot be in the interest of our economy to grant this unique privilege to one small and healthy segment of our chemical industry—and a few other producers—at the expense of consumers, farmers, and other industries. While ASP stands on our statute books, our ability to negotiate the removal of nontariff barriers by other countries will be seriously impaired.

But we did obtain some very valuable concessions in return for its removal. The largest beneficiary would be the American chemical industry itself, taken as a whole. In the chemical sector, both in the Kennedy round and in the supplementary agreement, it is clear that the United States obtained at least as much as it gave. In the nonconditional Kennedy round settlement on chemicals, the United States obtained from the EEC, the United Kingdom, Japan, and Switzerland a combined average tariff reduction of 26 percent on their $900 million of imports from us. We, in turn, beginning from much higher rates, cut our duties by an average of 43 percent, but on only $325 million of imports from them, while still retaining the ASP method of valuation for benzenoid chemicals.

In the ASP package, our major trading partners will make such larger additional tariff cuts than will the United States. For its part, the United States would eliminate ASP and grant an additional 5-percent average tariff reduction, thereby raising the average U.S. chemical cuts to about 48 percent, or approximately the same as that of the other countries, for the two packages combined. Let me emphasize again that the total reductions by others apply to a much larger volume of our exports to them than do those of the United States to their exports to us. There is a good deal more to be said about these chemical results, but I will postpone further detail until my testimony tomorrow.

The United States will receive further benefits from the ASP package. The EEC countries now impose automobile road taxes that bear much more heavily on American types of autos than on the smaller European types. These discriminatory features will be eliminated. And U.S. agriculture stands to gain—principally from a 25-percent reduction in the tariff preference that tobacco from Commonwealth sources now enjoys in the United Kingdom.

Finally, as Secretary Wirtz has indicated, the administration bill will liberalize the criteria and procedures for extending adjustment assistance to firms or groups of workers, in order to enable them to adjust to increased import competition.

We are also asking that the special adjustments assistance provisions of the Automotive Products Trade Act of 1965 be extended to July 1, 1971. We believe that both the groups needing assistance and the country as a whole will be best served by action designed either to make marginal firms more competitive or to help them and their workers to shift to more profitable lines of production.

As the President made clear in his New Year's Day message, the administration is determined to find ways of improving the trade account as one of the means of restoring equilibrium to our international balance-of-payments. Secretary Smith has commented on some of these measures. But I want to stress two aspects of the trade problem that seem to me to be paramount.

First, we have recently suffered a deterioration in the U.S. trade balance, caused primarily by high domestic demand and price inflation, but aggravated of course by special but temporary factors, such as the copper strike. We should not let that fact lead us to the conclusion that a basic structural change has robbed U.S. business of its traditional ability to compete with the rest of the world. Whatever else we may do to improve the trade balance, the lasting solution is to stop the inflation. To do so is essential to the basic health of our economy. But it is also essential if we are not to lose the healthy competitive position we have long held in world markets.

Secondly, any direct action such as trade restrictions could at best result in a temporary improvement in the balance-of-payments. Nevertheless, we have given careful consideration to the possibility of some direct action to affect our trade balance. But under close examination and after exploring a number of courses with our trading partners, we came to the conclusion that all of them involved serious longer term risks and none of them carried enough assurance of even a temporary net gain to justify the risks—at least on the basis of the present outlook for our trade balance. One difficulty is that because of the dominant position of the United States in world trade, most countries would feel compelled to follow our lead. In fact, many of them, such as Canada, the United Kingdom, and Japan, have balance-of-payments problems of their own.

But there are ways in which other countries—especially those that are presently in a surplus position, can assist the adjustment process by their own policies. We have held intensive discussions with these countries. Germany has already begun to adopt expanionist policies, and we may receive further assistance as a result of the proposal of most European countries and Canada and Japan to accelerate their Kennedy round cuts. On balance, it appears that at present we have more to lose than to gain from any unilateral action of our own on the trade account.

I have been talking about action that could be justified under the GATT. We would have much less chance of even temporary gains if our action were contrary to our international obligations. The adverse effects of restrictive action could be with us permanently or at least for much longer than I would care to contemplate. The damage to our domestic economy could be lasting. And if we tear down the world structure we have erected with so much difficulty over the past 20 years, the world might not be as ready a second time to follow our leadership back in the direction of international trade disarmament.

This brings me to the subject of the protective quota bills that are presently before this committee. At this time I won't try to speak about them in detail. But I do want to raise some fundamental considerations that seem to me vitally important to the future direction both of our international relations and our domestic economy.

The use of protective import quotas would have, we believe, serious consequences for our balance of payments. The imposition of protectionist quotas or increased tariffs in breach of our commitments would be met by heavy retaliation against our exports. In 1962 when the United States, by escape clause action, imposed higher tariffs on carpets and glass, the European Common Market immediately withdrew concessions of value to us. They didn't negotiate—they acted. And they acted on items designed to hurt our trade—as they had a legal right to do under the GATT.

Later, when the Common Market in 1963 denied access to our chickens we acted in the same way—with a sharp increase in our tariffs against Volkswagen trucks, starches, and French cognac. If any of the more important quota bills before you should pass, there isn't the slightest doubt that the retaliation that will follow will, of a necessity, be massive.

Many times as much trade would be involved and many times as many countries would be affected as in all the escape clause actions we have taken in the history of the trade agreements program. But, most important of all, our action in this case would not be a legal one—for which the compensation is limited—but an illegal one in which the affected countries ar not obliged to limit their retaliation to the amount of trade directly affected.

A quota policy, therefore, would have equally serious effects on our domestic economy and our longer run ability to compete. Import quotas can have only one effect on domestic prices—to make them higher than they would otherwise be. Is any action designed to raise prices at this time a rational one?

An immediate increase in prices would be only the beginning of the damage. As the secondary effects of quotas are felt, they will be very different from those of tariffs. A fixed tariff permits competition from those imports that are able to surmount it. Such competition stimulates domestic producers to keep ahead of the foreign manufacturer—to improve their efficiency, to lower their costs. A quota, of course, permits none of these effects. The domestic producer knows that no matter how high his costs or his selling price he can lose only a specified part of his market to imports. But without the spur of import competition, he will eventually lose his ability to compete with the same foreigners for the markets of third countries. In fact, even industries not protected by quotas will find that their own costs have risen and their ability to compete diminished because of increases in the cost of materials they use.

On the surface, quotas that simply guarantee domestic producers a fair share of the market may sound attractive. But what is a fair market share? In the American tradition it is the share anyone is able to win by producing a better or cheaper product. That is why our overwhelming share of the world's computer market, for example, is a fair share. The United States has been especially successful in the development and marketing of products involving new technology. We would be the heaviest loser if we should lead the world in freezing present patterns of trade. Such a course means stagnation—higher costs to the consumer, loss of our international ability to compete, and loss of many other qualities that have made us a strong economic force in the world marketplace.

Some who advocate the extraordinary protection of quotas probably honestly believe that the United States has no choice but to adopt distasteful measures because we are faced by unfair trading practices of other countries. I agree, as has already been mentioned here today, that the practices of other countries are not always what we would like them to be. Where I do not agree is that we are helpless before them. Both under our international commitments and our domestic law we have remedies for many of them. We have the power to impose antidumping duties and countervailing duties to offset unfair pricing practices and subsidies. And we have authority to protect domestic producers seriously injured by imports even where foreign practices are perfectly fair. This includes the authority to increase tariffs under the escape clause and to impose quotas to protect domestically supported farm prices. Finally, we will have, if the Congress enacts the administration's trade bill, an adequate means for the first time for dealing with the problems of individual firms and groups of workers.

We have used and will continue to use these powers where justified. For example, we have recently imposed countervailing duties against the subsidies of others. We are subsidizing poultry exports in order to regain our market in Switzerland that was lost because of EEC and

Danish export subsidies. But competitive subsidies are not a permanent solution. We have therefore begun intensive discussions in the GATT of the whole poultry problem. We have also made a good start toward reaching an agreed solution to the problem of the rules governing border taxes and are working in a special GATT group on the many problems that remain in other nontariff barriers.

Finally, let me say that the request for tariff negotiating authority in the administration's bill is limited, in part, because of a strong belief that a thorough review of our trade policy is required. For example, new insights into the complex problems of nontariff barriers, of regional bloc trade, of the relationship between American investment abroad and exports, and of the problems of the trade of developing countries are necessary before there can be a major new negotiation. These and other new developments will require an intensive review—both within this Government and in the GATT. Indeed, I believe that this has also been the point of view of the Congress, as evidenced by recent hearings before the Joint Economic Committee, the Senate Finance Committee, and, above all, the hearings beginning here today.

Such a review can lead to new approaches. But the basic objectives of our trade policy should not be in question. That policy—developed with the aid of the Congress, and especially of this committee, has been pursued by every American administration for over 30 years. It is vigorously supported by this one, and it forms, we believe, the essential basis for the continuing expansion of world—and particularly of American trade.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Ambassador. Mr. Ullman.

Mr. ULLMAN. Thank you, Mr. Chairman. I want to say, Mr. Ambassador and Secretaries, you have made an imposing case, but I am not sure you have addressed yourselves as completely to some of these problems as some of us would want.

I am worried about several things that are happening on the world scene. I have always supported the reciprocal trade program. I think all of us recognize that increased trade throughout the world is absolutely mandatory if we are to continue a free world, a strong free world, but there are new developments on the world scene during recent years that give us great cause for concern.

Sometimes we worry that we are attempting to follow old patterns where the actual situation is changing around the world, and the old formulas don't fit.

I am concerned about the Common Market. It has been said that the whole concept of the Common Market can very well undermine the basis of the reciprocal trade patterns.

Would you address yourself, Ambassador, to the basic issue of the Common Market and the fact that the internal barriers are being broken down within the Common Market? This is bound to have a very strong impact upon the individual countries and their trading situation with the United States; this is bound to replace imports from America by imports from those countries because of those greatly reduced barriers within the market itself.

Ambassador ROTH. Mr. Congressman, I think the point you raise is a valid one. As I indicated in my testimony, the administration felt, really for the very reason that you raise, that it was not appropriate to immediately come to the Congress with a major new trade bill following the old pattern of tariff reductions. Many of the developments since 1962—and one of the most important is the development of major trading blocs such as the EEC, LAFTA, EFTA, et cetera—had to be carefully studied before setting a major new trade direction.

Having said that, let me comment directly on the problem of the EEC. It is true that as tariffs have gone down and will continue to go down within the EEC, it has made it easier for the six nations to trade with each other to the disadvantage of third country exports.

This was one reason why the Kennedy round itself was of critical importance, in order to narrow the disadvantage that other countries—this country and the EFTA countries, for instance—would have in that market. In tariff terms, in many areas this disadvantage has become quite narrow, so that looking to the future tariffs will play much less important a part than in the past. This is in a way why so much focus since the end of the Kennedy round has of a necessity shifted to the problems of nontariff barriers.

In November at a GATT ministerial meeting, the United States requested the beginning of a discussion and ultimately a negotiation on the whole range of nontariff barriers. At a more recent date, we asked for a specific negotiation on the very complex and very difficult problems of the border tax problem and the relationship between fiscal systems and trading policies.

Finally, let me just comment briefly on perhaps the most difficult problem as it relates to the European Economic Community, and that is its common agricultural policy.

This is, we believe, a restrictive one. During the Kennedy round we were able to obtain some very important agricultural concessions from the EEC, but we were not able and we did not expect under the circumstances to dismantle the common agriculture policy. So it is true that an important segment of European agriculture is protected by the so-called variable levy system, which gives it very strong protection and leads in many cases to uneconomic production of agricultural products in Europe.

We have found in the past subsidized frozen poultry from Europe competing against ours in the world market, and more recently heavily subsidized barley competing in the Japanese market. So we have been concerned in two ways, one in terms of that system as it relates to our exports to Europe, which by the way in agriculture have been growing, and also because the system allows a subsidization of uneconomic agricultural production exported to third countries.

Therefore, we are pursuing this with increasing intensity. The example I used in my testimony was in poultry. Although we are against subsidizing exports as a general approach, we are determined that where this is necessary—as in the case of a product such as poultry—in order to regain our market, in this case Switzerland, we will do it. At the same time, we are insisting on intensive discussion and negotiation in the GATT.

We have problems ahead of us in tobacco and canned fruit, and from the administration's point of view it is of paramount importance that we push very hard in this direction. Let me say finally that in terms of long-range problems within the EEC, the CAP is a very expensive system for those countries that have to pay for it, in effect.

Germany perhaps pays the largest part of the bill and because of this I would think as time goes on there will be some adjustment. But we must push to be sure that we can continue to get our own share of that market.

Finally—I apologize for this long discourse—it is true, however, from a purely selfish American economic point of view that the development of a large market has meant the possibility of greater exports from this country.

As the EEC grew and became more prosperous, this became an important market to us, and when looking at our trade figures, the fact that 1966–67 was a poor economic year in Germany had a major impact on our exports.

In fact, this year I think their growth rate is in excess now of 5 percent. This should have a major impact on our exports.

Mr. ULLMAN. But, Ambassador, you are asking us to proceed with the trade package and just pin our faith on your ability to negotiate against the tide, which is in effect what we are doing.

These are new practices being put into effect. This is the trend over there. The trend is toward trade subsidy as you have just mentioned, in the field of agricultural products, but it is toward subsidy in other areas too, which is the very antithesis of everything that our trade policy has stood for. This has been the basis for retaliatory action.

If any one nation subsidizes its exports then under our general trade policy this has allowed retaliatory action by other nations and yet that is the trend over there, is it not?

Ambassador ROTH. First, Mr. Congressman, I would like to say that there is, I think as you indicated, a difference between agriculture and industry. In agriculture we have a long way to go before we reach really liberal trade, if we ever do.

In industry we do have, as I indicated, the means presently to take action where there has been subsidization of manufactured products—under our countervailing duty law, and we have used this. Recently we countervailed against Italy on transmission towers. There is another case presently under consideration.

Even more recently in agriculture we took action against Italy on canned tomato products. Our countervailing duty law actually does not have an injury requirement as it nominally should under the GATT, but it is a law that we had before the GATT came into being and therefore we are in a position to move quickly where it is found that a subsidy exists.

Mr. ULLMAN. There are other means of subsidies, too, that are more indirect. Certainly one is the tax structure. The next area of great concern to me is the tendency among other nations of the world toward the value-added tax approach to taxation with a direct and immediate tax upon imports and a direct subsidy on exports. This is a very widespread practice not only in the Common Market countries but in country after country all over the world. It has a double-edged effect upon trade relationships and an adverse effect in both instances on our trade balance to the point there is in this country some growing sentiment that we eventually go to some kind of a value-added tax.

This seems to be fair game around the world. You can put a tax on imports if you do it the value-added way or you can subsidize your exports if you do it that way, but if you do it directly then it is not fair.

How do you compensate for this and where does this new element in the world picture that is interfering with our regular trade processes fit in with your pattern of negotiations?

Ambassador ROTH. Mr. Congressman, I think I understand your question more clearly, because, leaving the border-tax problem aside, there have been no recent new European subsidies on industrial products that I know of.

The border-tax problem that we are currently negotiating on in Geneva is, as you know, a terribly complex one.

Mr. ULLMAN. In the border-tax concept are you including the value-added tax approach to this problem?

Ambassador ROTH. That is right. Under the GATT, when it was put together 20 years ago, it was felt at that time by economists that an indirect tax is fully passed on into price. It was therefore considered legitimate to offset that completely at the border and to rebate that amount on any exports. If the indirect tax went into price 100 percent, then the imported product was not at a disadvantage by also having to pay the same tax.

At the same time, it was felt that a direct tax, such as a corporate tax, did not go fully into price and therefore should not be offset. As you said, we have one tax and the Europeans have another.

Over the years people have begun to wonder whether this absolute dichotomy exists, whether perhaps not all the indirect tax goes into price and perhaps some of the direct tax does, but you still cannot find agreed economic opinion on this.

A couple of months ago Stan Surrey had a number of the most prominent tax economists in to discuss this. They still felt that this dichotomy, as it were, was perfectly justified and that although it paid this tax which was also paid by the domestic supplier, over a period of years our trade to Europe was not disadvantaged, and I think this is true.

In the past, our trade has not been disadvantaged partly because the border tax was undercompensated.

Recently, Germany has changed to an added-value tax and has gone to full compensation at the border. It could be that in this interim period of the changeover our trade could be affected, and this is what we are investigating and discussing in Geneva. But the question mark I want to raise around this whole problem is that, while we feel that there is a disadvantage that the system can produce in terms of our trade, it is not easy to define and it is certainly not the loose disadvantage that certain industries describe when they say, "We pay a border tax in Europe of 10 percent."

Some industries and certain companies have made a more detailed analysis of what this might mean to their products, and I hope later they will present their results to this committee, because it is a very difficult problem.

Mr. ULLMAN. Didn't the President express quite a lot of concern about this problem in his message to Congress?

Ambassador ROTH. Absolutely, and this is why, although last year our trading partners refused to enter into negotiations on this matter, they have more recently agreed to do so and, as I said, we have had one meeting.

The GATT secretariat is presently preparing material on the whole issue. We will have another meeting in a few weeks.

Mr. ULLMAN. I just can't accept the conclusion that this tax is being paid by their industry as well as by ours. We pay an income tax. Our tax is in the form of an income tax. They don't have a comparable rate of income tax or applied in the same way. They take their tax in the form of a value-added tax. This is more true of some countries than others but certainly very true of a lot of countries.

That is their form of taxation in lieu of income taxes and to the extent that is true then they are not paying an equivalent tax for that commodity.

We need to do some real serious study on the actual economic consequences of this approach to taxation at the border.

Ambassador ROTH. Well, you are quite right that a great deal more work has to be done. A great deal has already been done. I think members of the committee might like to see a very good discussion of this done by Stan Surrey some months ago and maybe we could submit it.

I would like to say that the European added-value tax is not in lieu of an income tax. They use that and a corporate tax as well.

Mr. ULLMAN. In France to what extent is that true?

Ambassador ROTH. Actually in France it is about the same. Of course, a much greater proportion of taxation in Europe falls on the consumer, and actually, as you know, the added-value tax is levied in the final sale to the consumer.

You have the price of the goods and then you have added to it the 10 percent added-value tax.

Mr. ULLMAN. I would like to have a more thorough analysis of this in the record than the general statements that we have had here because it has been my distinct impression that the European nations are relying more and more heavily on the value-added approach to taxation to carry the heavy burden of their tax structure.

Ambassador ROTH. This is true, but they also have a very heavy corporate tax and, Mr. Congressman. Mr. Chairman, I would like to submit for the record some very detailed analysis of this whole problem that we have, and then we would be glad to discuss it in great detail with you because it is a very complex problem.

The CHAIRMAN. Without objection that will be made a part of the record.

(The following information was received by the committee:)

EUROPEAN TAX SYSTEMS

The information submitted on this subject consists of the following:

Exhibit A.—The three tables referred to in the Committee hearing:

Table 1.—Maximum Tax Rates by Central Governments on Undistributed Corporate Profits, 1968.

Table 2.—Taxation by Central Governments of Corporate Profits Distributed as Dividends.

Table 3.—Taxes as a Percent of GNP in Selected Industrial Countries, 1959, 1961, 1963, and 1965.

Exhibit B.—Address by Stanley Surrey to the National Industrial Conference Board, February 19, 1968.

Exhibit C.—Article by Stanley Surrey, "The Wonderful World of Taxes" in *The Columbia Journal of World Business*, Vol. III, No. 3, May–June 1968.

Exhibit D.—"Border Tax Adjustments", by Kenneth Mesere, in *The OECD Observer*, October 1967.

Exhibit E.—Table prepared by the Office of Tax Analysis, U.S. Treasury Department: Indirect Business Taxes in Selected European Countries not Related on Exports or Imposed on Imports.

Tables 1 and 2 of Exhibit A are based on tax rates and do not show the net corporate tax burden as a percentage of corporate earnings. Therefore, they do not purport to make a comparison between the corporate tax burden in these countries and that in the U.S. Unfortunately, data that are comparable as between countries and that would show this net tax burden do not exist. Because of differences in accounting practices and in allowable deductions for business expenses, depreciation allowances, etc., we have not been able to obtain these data. Tables 1 and 2 are of value primarily as an indication that there exist significant direct corporate taxes that foreign countries could adjust for at the border. They do not show what countries would obtain a net competitive advantage as a result.

Table 3 of Exhibit A shows that the share of corporate profits taxes in GNP differs widely among countries, with the U.S., Canada, and Japan ranging between 4 and 5 percent and the EEC countries between 2 and 3 percent. Again, these figures do not reflect effective tax rates on those companies engaged in or affected by international trade.

Exhibits B, C, and D provide useful analyses of the differing economic effects of sales taxes, turnover taxes, and value-added taxes, with an explanation of the domestic reasons the EEC countries are converting from turnover taxes to value-added taxes.

Finally, Exhibit E tabulates the indirect business taxes of European countries that are not compensated at the border. It throws some light on the additional charges that might be imposed on U.S. exports if the international rules governing compensation for indirect taxes at the border were to be liberalized.

Exhibit A

TABLE 1.—*Maximum tax rates by central governments on undistributed corporate profits, 1968*

	Percent
Austria	53.24
Germany	52.53
Canada	50.
France	50.98
United States	48.
Netherlands	46.
United Kingdom	42.50
Australia	42.50
Sweden	40.
Belgium	35.
Japan	[1] 35.
Norway	30.
Italy	[2] 27.50
Switzerland	7.20

[1] There is an additional tax in Japan up to 20 percent on retained profits of closely held corporations.

[2] In addition, in Italy there is a 16.5 percent tax on profits in excess of 6 percent of taxable assets.

Source: First National City Bank Monthly Economic Letter, May 1968.

TABLE 2.—TAXATION BY CENTRAL GOVERNMENTS OF CORPORATE PROFITS DISTRIBUTED AS DIVIDENDS

[In percent]

	Maximum rate paid and withheld by corporation	Credit allowed individual shareholder
France	50.00	50.00
Switzerland	35.04	[1] 30
Belgium	44	[2] 29
Netherlands	59.50	[1] 25
Germany	[3] 43.11	[1] 25
Canada	50	20
Japan	37.10	[1] 15
Italy	20.68	[1] 5
United Kingdom	41.25	0

[1] Deducted at source and credited to individual shareholder.

[2] Of this, 20 percent is deducted at source.

[3] Ignoring the variable effect on the tax base of property tax on net worth.

Source: First National City Bank Monthly Economic Letter, May 1968.

TAXES AS A PERCENT OF GNP IN SELECTED INDUSTRIAL COUNTRIES, 1959, 1961, 1963, AND 1965

[In percent]

	1959	1961	1963	1965
Belgium:				
Social security contributions	6.04	6.48	7.33	8.61
Personal taxes	6.17	6.01	6.67	7.06
Corporate profits taxes	1.41	1.65	1.62	1.91
Total direct taxes	7.58	7.66	8.29	8.97
Indirect taxes	11.21	12.08	12.13	12.16
Total taxes	24.83	26.22	27.75	29.74
Canada:				
Social security contributions	1.87	2.10	1.96	1.85
Personal taxes	5.00	5.68	5.73	6.46
Corporate profits taxes	4.56	4.36	4.25	4.19
Total direct taxes	9.56	10.04	9.98	10.65
Indirect taxes	12.98	13.43	13.83	14.63
Total taxes	24.41	25.57	25.77	27.13
France:				
Social security contributions	11.50	12.23	13.46	14.25
Personal taxes	3.99	3.82	3.81	4.56
Corporate profits taxes	2.49	2.33	2.06	2.12
Total direct taxes	6.48	6.15	5.87	6.68
Indirect taxes	16.75	16.74	17.29	17.56
Total taxes	34.73	35.12	36.62	38.49
Germany:				
Social security contributions	9.60	9.71	9.92	9.77
Personal taxes	6.13	7.49	8.15	7.87
Corporate profits taxes	2.99	3.10	2.83	2.47
Total direct taxes	9.12	10.59	10.98	10.34
Indirect taxes	14.50	14.55	14.31	14.22
Total taxes	31.22	34.85	35.21	34.33
Italy:				
Social security contributions	8.65	8.94	10.62	10.41
Personal taxes [1] Corporate profits taxes [1]	5.66	5.51	5.86	6.64
Total direct taxes	5.66	5.51	5.86	6.64
Indirect taxes	12.69	13.03	12.60	12.61
Total taxes	27.00	27.48	29.08	29.66
Japan:				
Social security contributions	2.45	2.56	2.99	352.
Personal taxes	2.92	3.28	4.00	4.38
Corporate profits taxes	3.52	4.33	4.32	3.96
Total direct taxes	6.44	7.61	8.32	8.34
Indirect taxes	8.97	8.82	8.51	7.76
Total taxes	17.86	19.00	19.82	19.62
Netherlands:				
Social security contributions	7.91	8.23	9.97	11.27
Personal taxes	8.91	9.62	9.49	9.95
Corporate profits taxes	2.99	3.29	2.55	2.81
Total direct taxes	11.91	12.91	12.04	12.76
Indirect taxes	9.85	10.05	9.91	10.05
Total taxes	29.67	31.19	31.74	34.08
Norway:				
Social security contributions	5.32	5.81	6.58	6.80
Personal taxes	10.70	10.50	11.68	11.62
Corporate profits taxes	2.47	1.89	1.62	1.49
Total direct taxes	13.17	12.39	13.30	13.11
Indirect taxes	14.52	14.79	14.82	14.99
Total taxes	30.01	32.99	34.70	34.90
Sweden:				
Social security contributions	3.11	3.94	5.64	6.18
Personal taxes	13.58	15.33	15.51	17.71
Corporate profits taxes	2.84	2.43	2.07	2.31
Total direct taxes	16.42	17.76	17.58	20.02
Indirect taxes	10.02	11.63	12.61	12.81
Total taxes	29.55	33.33	35.83	39.01
Switzerland:				
Social security contributions	4.28	4.63	4.70	4.76
Personal taxes	6.49	6.33	6.73	6.94
Corporate profits taxes	1.76	2.04	2.00	2.04
Total direct taxes	8.25	8.37	8.73	8.98
Indirect taxes	6.50	7.27	7.28	7.13
Total taxes	19.03	20.27	20.71	20.87

TAXES AS A PERCENT OF GNP IN SELECTED INDUSTRIAL COUNTRIES, 1959, 1961, 1963, AND 1965—Continued

[In percent]

	1959	1961	1963	1965
United Kingdom:				
Social security contributions	3.70	3.90	4.26	4.76
Personal taxes	7.32	8.19	8.21	9.18
Corporate profits taxes	3.84	2.75	2.64	1.90
Total direct taxes	11.16	10.94	10.85	11.08
Indirect taxes	13.19	13.27	13.23	14.10
Total taxes	28.05	28.11	28.34	29.94
United States:				
Social security contributions	3.58	4.06	4.48	4.22
Personal taxes	9.18	9.64	9.89	9.27
Corporate profits taxes	4.82	4.37	4.39	4.50
Total direct taxes	10.00	14.01	14.28	13.77
Indirect taxes	8.67	9.29	9.39	9.31
Total taxes	26.25	27.36	28.15	27.30

[1] Not available broken down.

Source: National Accounts Statistics, 1956–65, Organization for Economic Cooperation and Development, 1967.

Exhibit B

Remarks by Hon. Stanley S. Surrey, Assistant Secretary of the Treasury Before the National Industrial Conference Board

IMPLICATIONS OF TAX HARMONIZATION IN THE EUROPEAN COMMON MARKET

The subject of European tax harmonization has evoked a misty glamour in the United States. Any movement that goes by the description of "harmonization" is attractive in these troublesome days. We also hear about a new tax that is sweeping across Europe, the "value-added tax," which has the intriguing, and also disconcerting for us, shorthand label of TVA. Certainly the question, "Is the TVA good for the USA?" can throw one of my generation off stride for a moment, as he wonders if he is back in the 1930's with the shade of Senator Norris of Nebraska and hearing a replay of Senate debates on our Tennessee Valley Authority.

As a consequence, many are apt to believe the Europeans have suddenly discovered a wondeful new tax system and that the rest of the world should rush to emulate them. The reality is quite the contrary. The Europeans for years have had a serious tax problem on their hands. With the advent of the European Economic Community they have had to face the fact that this tax problem was a serious obstacle to achieving an effective Common Market and the desired economic unity. They have therefore started on the difficult task of correcting that problem.

Background of tax harmonization in Europe

What is this serious tax problem? The tax systems of the EEC countries were all characterized by high rate sales taxes, whose structures were extremely complicated, highly discriminatory and economically inefficient. As to rates, France until this year imposed a 25 percent tax on a value-added basis, and the present rate is 20 percent. The other countries had multi-stage, cumulative turnover taxes (also called "cascade taxes") at basic nominal rates of 4 to 6 percent (Luxembourg was at 3 percent, and Italy at 3.3 percent). These nominal turnover tax rates do not tell the whole story, however, since they were levied at each stage of the production and distribution process. Thus, the German 4 percent turnover tax rate was equivalent to an average rate of 12 percent on the value of the final product.

As to complexity, consider, for example, the French system where in addition to the 25 percent value-added tax (TVA) on manufacturers, wholesalers, and some retailers of goods, there was also a retail sales tax covering other retailers and handicrafts at 2.83 percent, and a sales tax on services at 13.66 percent—along with a whole miscellany of specific excise taxes on such items as entertainment, wines, meat, gasoline, transport. Each tax was characterized by a lengthy list of special rates, exemptions, and options. Thus, the French TVA covered mining and building along with manufacturing—but not farming and fishing and allied processing, or handicrafts. These complexities of basic rates followed by innumerable special rates and exemptions were characteristic of all the European taxes.

As to discrimination and economic inefficiency, consider, for example, the German system: Its turnover tax of 4 percent applied at each stage of the business process—producer, manufacturer, wholesaler, retailer. (Hence the descriptive term "cascade tax" applied to these turnover taxes.) And at each stage the tax was built into the price and thus became pyramided and swollen as each sector turn applied its markup on price plus tax and then added its own tax. The consequence was acute differences in treatment between vertically integrated and non-integrated industries and concerns, between companies which performed some services for themselves and those which hired the services from others. In the other EEC countries a similar situation prevailed under their turnover taxes.

Sales taxes that run as high as 25 percent, or even 10 to 15 percent, are not to be treated casually or lightly. They have, at such levels, a high potential for economic mischief. But the exigencies of the past, the encrustations that any tax system accumulates, and the lethargy engendered by a familiarity with the status quo produced for the Europeans indirect tax structures that, at these high rates, were seriously defective.

The catalytic agent for change was the formation of the EEC. If Europe was to become a genuine common market in which goods and capital could move freely, a prerequisite was as much uniformity—harmony—as possible among the tax systems of the member countries.

The problem was clear: How to obtain uniformity out of this maze of high but disparate rates and complicated but disparate structures that characterized the sales taxes of these countries when seen as a whole. The solution chosen was a two-step approach—find a common sales tax structure that each could adopt and then move to uniformity in rates. The tax changes we are now seeing in Europe are in response to the first step, that of a common structure for these sales taxes.

The value-added tax in Europe

For this first step, the EEC had to answer this question: What type of sales tax structure is best suited in their economies to support a high tax rate? The choices would be among the single stage sales taxes—a manufacturers tax (Canada), a wholesale tax (Switzerland, Australia, United Kingdom), a retail tax (States in the United States, Norway), or a multi-stage tax of the value-added type (France). The multi-stage turnover type tax was not a possible choice, since it was essentially the villian in the existing picture.

A manufacturers tax has its problem of pyramiding through subsequent markups. It also has its problems of definition—what is "manufacture" and how far does it reach into assembly, packaging, bottling, etc.? The tax at this stage also discriminates against certain forms of distribution (such as manufacturers selling at retail), unless complex adjustments in prices are made for tax purposes. A wholesale tax involves many of the problems that beset a manufacturers tax, though in a different degree or form. There is the aspect of pyramiding; the problem of how to handle industries in which retailers perform certain wholesale or manufacturing functions and hence buy at cheaper prices; the problem of wholesalers who also sell at retail or manufacturers who skip the wholesale stage and sell at retail. While these considerations may point to a retail tax, the success of a retail tax can test severely the enforcement capabilities of a country, since the tax offers the largest number of taxpayers to police. In addition, these European countries already had turnover taxes under which each stratum of the economic process was presently being taxed, so that placing a tax at one stage only, say on the retailers, could well arouse difficult political problems.

The Europeans therefore turned to the value-added tax, which essentially is a multi-stage sales tax that achieves the end effect of a retail tax on personal consumption (consumption by households as contrasted with businesses). In choosing a value-added tax, they desired however to avoid the accumulated complexities of the French approach to a value-added tax—indeed the French themselves already started on their own reform. The Germans this year were the first to adopt a new value-added tax to replace their turnover taxes and we can refer to it for understanding of the emerging European picture.

The German tax is imposed at a 10 percent rate (11 percent on July 1, 1968) on almost all sales of goods and services by any business. Let us start with a manufacturer: He applies a 10 percent rate to his total sales to find the preliminary tax due. From this he subtracts the taxes he has paid on his purchases and the net is payable to the Government. In essence, the tax is thus on the "value added" by him as represented by the difference between the value of his total sales and the value of his total purchases. "Purchases" include all types of goods and services—components either as raw materials or semi-processed goods; capital goods, such as plant machinery and equipment; goods used up in manufacture; business furniture, etc. The manufacturer, of course, will bill his customer for the 10 percent tax on the sales price of the articles he sells, just as the manufacturer was earlier on his purchases billed 10 percent by his suppliers. The tax is invoiced separately on all sales and is thus not hidden in the sales price.

The process is repeated at the wholesale stage—the wholesaler pays the Government 10 percent of his sales less the taxes paid previously by the wholesaler on his purchases—and the wholesaler then bills the 10 percent tax to his customers. But of course no pyramiding should occur since the taxes paid by the wholesaler are kept apart from the price of the goods he purchased and he can subtract this tax cost. The process is repeated once again at the retail stage—the retailer pays the Government 10 percent of his sales, less the taxes the retailer paid—and of course the retailer charges his customer for the 10 percent tax. The process ends there if the retail sale is for personal consumption—food, an automobile, furniture, clothing. But if a business concern buys the article for use in its business—say an automobile or a desk—the process begins again as the concern will subtract the tax on the automobile or desk from its tax bill.

There is one additional important facet to note: Under the German system, tax is due each month. Suppose a concern has paid more tax on its purchases than is due on the sales to its customers—its sales may be slow, for example. The Government here makes a refund each month of any excess tax paid, so that the cost of carrying the value-added tax is not borne by the concern beyond a month or two.

All this adds up to a 10 percent retail sales tax on personal consumption—the 10 percent value-added levy is designed to be passed along from concern to concern until the consumer is reached and he is left with the tax. The 10 percent tax is not intended to enter into the price structure until that final sale—until then it is a tax item that accompanies each sale, is kept separate on the books, and is so indicated. If the tax item is not promptly moved along the business chain, the Government refunds it promptly. (If a concern has to finance the tax during this month or two, this cost would enter into the price structure.)

Since the economic effect is that of a retail tax, the distortions due to pyramiding, differential burdens on integrated or non-integrated firms and industries, and differences in distribution patterns that beset a manufacturers tax or a wholesale tax, are essentially avoided. At the same time the pressure for strong policing at the retail level that would exist under a retail tax is eased, since under the value-added approach the tax will have been partially collected at a prior level. If a retailer evades the tax, the Government has at least taxed the value at the wholesale level. And the chances of retail evasion are lessened, since the wholesaler has notified the Government of his sales to the retailer. Parenthetically, it is quite likely, however, that countries underestimate their capacity to enforce a retail tax. Even some developing countries are finding they can adequately administer such a tax if care is paid to its design and structure.[1] The Royal Commission (Carter) Report on Taxation in Canada (1966) recommended a retail tax to replace its present manufacturers tax and chose the retail tax in preference to a value-added tax.

The mechanics of the value-added tax are designed to keep the tax from entering into business costs even when a concern buys goods at retail that are used in its business activities. (A retail tax can meet this problem by exempting such purchases through a registration system; the value-added tax provides a refund of tax instead of exemption.) Of course, the value-added tax does involve pushing every concern into the act, and there is a lot more bookkeeping, tax paying and tax refunding, and paper passing than would occur under a retail tax. Moreover, the fact that every stage in the production process is nominally taxed can result in pressure drives for rate reductions by industries or groups concerned about their ability to keep passing the tax along. The value-added tax thus has an inherent potential for breeding exceptions and special treatment. But if a country feels it can't efficiently handle a retail tax, then a value-added tax is the next best thing.

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[1] Due, The Retail Sales Tax in Honduras, in Bird and Oldman Readings on Taxation in Developing Countries (Rev. Ed., 1967), 326.

The value-added tax is thus a useful solution to the sales tax structural problems that beset the Europeans and blocked their economic unity. As a consequence, Denmark adopted the tax on July 1, 1967; Germany did so on January 1, 1968; the Netherlands and Sweden plan to do so on January 1, 1969, and Austria is also hoping to change on that date; Belgium and Luxembourg will presumably go to the TVA on January 1, 1970; Italy may not be prepared to switch to TVA by January 1, 1970. The changes in tax structure do not appear for the most part to be designed to bring about significant changes in the total revenue yield of the various tax systems or of the sales taxes themselves. France is reforming its indirect tax structure to achieve a similar application of the TVA.

Hence it is fair to say that the Europeans, by comparison to their present situation, have evolved a far more workable sales tax capable of application at a high rate—more complicated than is needed where a retail tax would work, but still a workable mechanism. *If* a country is in the market for a high rate sales tax and *if* it really believes it cannot handle a retail tax, it should look the European model over. Should the United States be in the market for such a tax?

A value-added tax in the United States?

We can first consider this matter in terms of our domestic tax structure and domestic economy, and then in terms of international aspects.

Certainly we hope that the long-term trend in the United States at the Federal level is not that of tax increase but of tax reduction. There is indeed justification for us to look forward after Vietnam to being able to use our fiscal dividends—the increase in Federal tax revenues that comes from growth in the economy—partly to meet our needed expenditure increases and partly for tax reduction or debt reduction. As a nation we have not, since the Depression, sought to increase our Federal taxes except for fiscal policy reasons in times of hostilities. So we should not want a high rate sales tax on the ground of increasing our tax take.

Do we want it as a substitute for an existing tax? Here there are some—the Committee for Economic Development for example—that have for some time urged we should have a sales tax at the Federal level as a substitute for part of the corporate tax. The CED first urged a retail tax and now a value-added tax. Here we reach, of course, a classic split in tax philosophy—between those who favor maintaining a progressive tax structure at the Federal level and those who would, by shifting to a sales tax, lessen that progressivity. Economists on the whole would agree that the corporate tax is a factor working for progressivity in our tax system even though, as will be discussed later, there is some difference as to whether part of that tax is shifted forward in price or perhaps backward in wages and raw material prices. And there is general agreement that a retail tax, either of the single stage type or that achieved through a value-added tax, would increase the price level and largely be passed on to consumers, though as will be discussed later there can be uncertainty as to how fully this forward shifting is accomplished. The CED itself states that, "While it is true that the tax burden is distributed differently under a tax system with a value-added tax, we believe that the other effects of the tax are such as to compensate the nation in larger output and more growth.[2]

There is not the time here to examine in detail the validity of that latter belief, either as to the effect of the tax itself in our economy or the need for further incentives to investment that the statement implies. We must remember that the 7 percent investment credit and depreciation reform operate to provide incentives to investment under our present income tax system. At any event, the literature demonstrates that very many, presumably the majority, of our fiscal economists would disagree with the CED belief that we would be better off with the substitution of a sales tax for a part of our corporate tax. The Conference Report of the National Bureau of Economic Research and the Brookings Institution in 1964 on the subject of "The Role of Direct and Indirect Taxes in the Federal Revenue System" ends with the thought: "It is hard, then, to find much support for more reliance on indirect taxation in the record of the conference, even though some participants came, and left, with a disposition toward this view." (313) Professor John Due, an acknowledged authority on sales taxes, has concluded:

"On the whole, the sales tax must be regarded as a second-best tax—one to be employed only if various circumstances make complete reliance on income and other more suitable taxes undesirable. A carefully designed sales tax is not

[2] CED, A Better Balance in Federal Taxes on Business (1966), 28.

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perhaps as objectionable as it was once regarded; it offers definite advantages over widespread excise tax systems, with their inevitable discrimination among various consumers and business firms and their tendency to distort consumption patterns; and it is definitely superior to high rate 'business' taxes with uncertain incidence and possible serious economic effects. But it must be regarded as secondary to income taxation, in terms of usually accepted standards of taxation." [3]

Recommendations for a sales tax at the Federal level in the United States generally overlook the fact that the States, supplemened by the cities, are gradually evolving a sales tax structure for the United States, and one at significant rates—44 States and the District of Columbia have sales taxes (there are municipal sales taxes in 15 States), the usual rate is presently around 3 percent but some taxes reach to levels of 5 percent and 6 percent (the usual municipal rate is 1 percent), and the trend is of course upwards. While this structure is not at the Federal level, its basic economic consequences are not different from a Federal sales tax.

Recommendations for a value-added tax also gloss over the complexities involved in adding a sales tax to our national system. No one should be misled into thinking a value-added tax is a simple levy, with a few pages of statutory text. It is a highly complex instrument.[4] It is considerably better than what most European countries have today—but no one should ask a country to adopt it unless there is a very clear, real gain to be achieved. Moreover, anyone who thinks a value-added tax sounds simple should just suppose he was back in the past and someone were to say: "Here's a simple way to tax people—you just add up their total income and then you subtract their total expenses, and then you just tax the difference. It's called an income tax." Well, you know the story of that tax! No mass tax can be a simple tax—as anyone acquainted with a State retail tax will agree—and a value-added tax is more complex than a retail tax.

These are among the factors that have in the past kept Congresses, Democratic or Republican, from legislating a national sales tax. If the past is prophesy, a pragmatic view of this question would appear to be that the Congress is not likely to change it course.

One may ask why the Europeans have high rate sales taxes. History plays a very large part. Most of the Eureopeans mass sales taxes were adopted in World War I or the period just after it, and were borne of financial necessity.

This was a time when no country had attempted to apply the income tax on a mass basis, and in addition the income tax itself was only in its developing stage. It was not until World Wor II that the United States demonstrated the income tax could be made into a mass tax. Moreover, the United States has been more successful than other countries in developing a truly mass individual income tax effectively administered. The European countries, having started on a different route through the choice of the sales tax as the mass tax, devoted more energy to working on their mass sales taxes than on their income taxes.

We must also remember that European countries are high tax countries compared to the United States: In 1965 our total tax burden (Federal, State and local) came to 27 percent of our GNP, whereas Italy and the United Kingdom came to 30 percent; Germany and the Netherlands to 34 percent; and France to 38 percent. If indirect taxes, principally these mass sales taxes, are treated as the "last taxes," the differences between the lower level of United States indirect taxes and the higher European levels would generally be reflected in these differences in total tax burdens. Thus, if we subtract the differences between indirect tax levels, so that European indirect taxes would be included at our level, the total tax burdens become: United States 27 percent; United Kingdom 25 percent; Italy 26 percent; Germany 29 percent; France 30 percent; Netherlands 33 percent. If we consider direct taxes alone as a percent of GNP, and thus leave out both indirect taxes and Social Security contributions, the comparisons are: United States 18 percent; United Kingdom 16 percent; Italy 17 percent; France and Germany 20 percent; and the Netherlands 24 percent.

The Europeans have high rate mass sales taxes and as a consequence are countries that impose a heavier tax burden overall on their peoples. The United States does not have sales taxes at those high rate levels, and consequently impose a lower total tax burden. It is difficult to see why United States taxpayers should urge that we emulate the Europeans.

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[3] Due, Sales Taxation (1957), 41.

[4] See the discussion by Prof. Francesco Forte on "The Feasibility of a Truly General Value-Added Tax: Some Reflections on the French Experience," 19 National Tax Journal 337 (1966).

This is not to say that continued study of the value-added tax is not useful. At the very least we should know what the Europeans are doing. But the studies should be tough-minded and straight-forward. They should not be content just to admire the outside wrappings and never examine the contents of the package. They should not become bemused with semantics and fail to make clear that the European value-added taxes are in fact sales taxes in their structural design and economic effects. Hence, to substitute a value-added tax for the corporate income tax does not involve just another way of taxing corporations. The issue is not, despite the way it is sometimes put in the United States, of economic and technical judgments over two methods of taxing corporate business. The basic issue still remains that between substituting a sales tax on personal consumption for an income tax on corporate profits. However appealing to some may be the semantic gain, the issue should not be allowed to be blurred by omitting the term sales tax when we discuss the value-added tax.

If we are to study the adoption of a sales tax in the United States we should extend the studies to encompass the retail sales tax as well. The studies should also recognize there are many issues to be explored in addition to that of regressivity and the allocation of the tax burden between consumers and investors. Thus, there are considerable shifts in burden among the various sectors of the economy when a value-added tax or any sales tax is substituted for a corporate tax: e.g., banks and financial institutions are generally exempted (that is, the tax does not reach their services but may reach their purchases); the activities and profits of foreign investment are not reached; unincorporated business gets swept into the structure of a value-added tax; the tax falls on unprofitable concerns as well as profitable concerns so that if the tax cannot be shifted forward the former concerns will suffer; the coverage of Government-provided services becomes an issue. All in all, there is much more to be studied than the calls for study have generally indicated.

In pursuing such studies we must also remember we already possess a "common market" and economic unity within the United States and so do not have the sales tax problems that the Europeans must solve to achieve their economic unity. As stated above, we do have retail sales taxes in most of the various States, but they do not produce any serious economic distortions or competitive effects. There may be some irritating compliance problems for interstate business, but even these are moving, albeit slowly, to improvement. Hence we do not have any sales taxes to "harmonize" as do the Europeans.

In this regard the same story may be told for what may some day be the next major step in tax harmonization for the EEC—the harmonization of corporate income taxes. We in the United States invest and our businesses operate in our "common market" under our Federal corporate rate, which applies uniformly throughout the United States. While State corporate income taxes exist and differ as to rates, their deductibility from the Federal corporate tax greatly lessens their effective rate, although irritating compliance and bookkeeping aspects remain. But Europeans in their common market must invest and operate under as many different high rate corporate tax systems as there are countries involved—systems that differ both as to rates and structure. So if Europe finally decides on a common corporate tax, it will, as respects economic unity, merely be reaching the stage the United States has enjoyed for many years.[5]

European border tax adjustments—Their background

Let us turn now to an aspect of the European sales tax systems that has been highlighted in recent years as a result of our balance of payments problems—the aspect of export rebates and compensatory import taxes that characterize the

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[5] Other aspects of harmonization that have a similar consequence may briefly be noted: A common market implies a relatively free flow of capital within the market area and will therefore require removal of existing restraints on capital movements. There will be increasing concern among European countries on the extent to which differences in other aspects of direct taxes affect capital flows. Low withholding taxes in a given country would attract portfolio investments from other countries, particularly in the light of the widespread use of bearer shares and bonds. Consequently uniformity in withholding taxes is important. There may also be a reappraisal of attitudes toward the foreign tax credit approach as a means of eliminating double taxation in contrast to the tax exemption approach presently used in many European countries. With more volatile capital movements the consequences of tax exemption of foreign income will appear more serious than in the past. A common market with increased fluidity in capital movements requires the removal of barriers to corporate mergers, reorganizations and the like. Consequently the tax treatment of capital gains, for example, will have to be modified so as to remove a barrier toward integration of industries and reorganizations in line with the emerging needs of an enlarged market area. But again, the United States does not have these problems.

European sales tax systems. All countries with significant sales taxes or excise tax systems automatically structure those systems to attempt to keep the taxes from affecting external export prices and to ensure the application of the taxes to imported goods. If the tax is a manufacturers tax on the final product—an automobile, a refrigerator, cigarettes, liquor, and so on—then exports are not made subject to the tax, or if taxed, can secure a rebate. Imported goods, on the other hand, are subjected to the same tax as is imposed on domestic manufactured goods, so that both goods will compete on equal terms in the domestic market in this respect. The United States does this for its few manufacturers taxes; Canada does the same under its 11 percent broad manufacturers tax.

If the tax is imposed at the wholesale stage or the retail stage, such rebates and import taxes are not needed: a manufacturer selling goods whether for internal consumption or export is not subject to these taxes; a wholesaler importing goods will pay the tax on his subsequent sale. The sales for export that a wholesaler or retailer may make will be exempted from tax.

The essential principle under which all these taxes are structured is that sales and excise taxes are intended to be paid by domestic consumers in the form of higher prices—that is the purpose of the levy and that is the intended distribution of the tax burden. But at the same time it is intended that a country's exports should not be handicapped by these taxes—and imports into the country should not be favored.

The European turnover taxes followed the same principle but ran into additional complexities. It was simple, of course, to say to a German manufacturing firm that it need not pay the 4 percent turnover tax on an export sale. But what about the 4 percent taxes paid by the manufacturer on purchases from its suppliers of materials of almost every sort—these 4 percent taxes were built into the costs of the manufacturing operation, just as the 4 percent taxes the suppliers had to pay on their purchases were built into their costs and also passed along as part of the prices charged by the suppliers. For that is the vice of turnover taxes—they pyramid in prices throughout the economy. The economic effects of these taxes were significant at the high rate levels applied in Europe. The principle of protecting exports therefore required a rebate of these taxes previously imposed in the production chain and which cumulated as costs for the manufacturer on its purchases, or for the wholesaler if he was the exporter. But how much should be rebated? Here these countries had to compute the amount through an estimating procedure, for these high rate taxes were hidden in the price structure and, moreover, their total would vary with the extent of integration of productive activities in the prior stages. The European countries therefore carefully developed average figures and used them for the rebates. Corresponding figures were used for the import charges.

A common market ideally requires a tax system that does not have complex border adjustments. A common retail tax would accomplish this—as pretty much occurs in the United States—if care is taken to keep the tax from applying to purchases for business purposes. Failing that, if border adjustments are to exist, their calculation should be made with as much precision as possible. It is here that the value-added tax provided an extra advantage for the Europeans. For just as the value-added tax eliminated for internal sales the distortions resulting from pyramiding and differences in integration of business activities, it also by the same token and procedure offered a ready measure of the taxes that the exporting firm had to pay because of its purchases. Indeed, under the German value-added tax, a firm is given a "rebate" through refund or credit for all of the taxes it has to pay on its purchases, whether its goods are sold internally or externally. The structure of the tax thus readily enables the Government to determine the amount of export rebate needed to reflect the exporter's book costs representing the taxes paid on its purchases. And it similarly permits the fixing of the amount of import charge to reflect the taxes paid by domestic concerns.

In time, of course, if Europe can achieve uniform value-added rates, then it could abandon these border adjustments, export exemptions and import charges for intra-EEC trade, and simply go to the rule that the country of origin taxed the sale. It would be a matter if indifference—within the Common Market—as far as import and export competitiveness are concerned, whether the exporting country were to grant an exemption or rebate and the importing country impose an identical import equalization tax (the "destination" approach), or whether the exporting country taxed the export and the importing country did not impose its import tax (the "origin" approach). There would be some effect on national revenues to the extent that trade is not in balance, but this would be minor. The border adjustments would, of course, remain applicable to trade by the EEC with other countries.

But the day of uniform sales tax rates will take some time to arrive in Europe. In the meantime the shift to value-added taxes has brought about a precise system of border tax adjustments given the structure of the taxes, and this will facilitate economic unity within the Common Market. In this setting our discussion can turn to the effect on the external trade of the Common Market countries, especially as respects the United States.

Border tax adjustments and international trade

In the German situation, the rebates for taxes paid on goods purchased by the exporter and import charges under the value-added tax are turning out to be higher than the averages used under the previous turnover taxes. This varies, of course, from product to product but the over-all result is higher. In effect, it would appear that some German exporters had presumably not been receiving rebates at the level that their tax costs under the turnover taxes appeared to call for.[6] Of course German exporters presumably had adjusted to that situation and effect of the undercompensation if it existed could no longer be traced through all the prior history of exchange rate changes, devaluations, and the like. Hence viewed as of today as the starting point in time—which is the proper way to consider the effects of the change—this sudden increase in export rebates under the value-added tax, while the internal overall burden of the tax remains unchanged, becomes an advantage to German exporters. And equally, the rise in the import charges can be an added competitive burden to imports.[7]

What is happening in Germany is, and will be, reflected elsewhere in Europe as the countries shift to value-added taxes. The Netherlands, Austria, Belgium, and Italy are even raising their rebates and import charges under their existing turnover taxes in advance of a later shift to a value-added tax. Sweden is shifting to a value-added tax because it realizes that its previous "retail tax" had been levied on producers' goods and hence was in effect a turnover tax to that extent but it had not been rebated to exporters. As a consequence, European exporters in general will get an added lift in most countries.

There is an additional feature of the shift to a value-added tax that operates to increase this lift to exporters. Countries with a value-added tax seek to achieve as broad a base for the tax as possible, since it operates effectively to prevent pyramiding as compared with specific excises. In France, for example, the reforms of the value-added tax have been in the direction of increasing its coverage and eliminating other taxes. Any commodity previously taxed under a specific excise tax but now swept into a value-added tax immediately falls into the rebate process, under the structure of the latter tax, so that the tax paid on the purchase of the commodity is rebated whether the business concern at that stage is selling internally or abroad. Hence, the result is that a number of hidden, and hitherto unrebated taxes, in effect come to light and now are rebated—and also included in the import charge.

But what about the rest of the world? The United States does not have a high rate sales tax and therefore only rebates its specific manufacturers taxes on final products. The United Kingdom has a purchase tax at the wholesale level which over-all does not require rebates for tax costs since essentially it did not apply to business purchases. Canada also does not apply its manufacturers tax to most business purchases and likewise does not need rebates except for any tax paid on the final products that are exported; similarly neither does Japan for its variety of manufacturers excise taxes. Thus, unlike the European countries whose high rate turnover taxes entered into the costs of exported goods through the cost of the goods purchased by the exporter and thus necessitated export rebates and import charges, these countries did not apply their sales taxes to business purchases and thus did not have high sales tax costs imbedded in their exported goods. As a consequence they have not been as rigorous in seeking fully to eliminate indirect taxes from export costs and hence do not have a system of export rebates for tax costs or import charges.

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[6] As Professor Due has pointed out, German businesses had earlier suspected this: "German firms argue that the failure to obtain full sales tax refund places them at a disadvantage, particularly in competition with American and British firms not subject to a similar tax. . . ." Due, Sales Taxation (1957), 62.

[7] The Germans assert that these trade advantages are offset by transitory tax arrangements outside the value-added tax affecting investments in plant and equipment, and state that in any event any calculations are to a large extent hypothetical.

Similarly, the United States has not sought in the past to see how much of the Federal gasoline tax, the passenger motor vehicle tax, the trust tax, the telephone tax, or the alcohol tax, for example, paid by a manufacturer who exports some of his goods is allocable to those exports and thus increases their costs. Nor has it sought similarly to see what part of State and local sales taxes paid, for example, on office equipment and other goods purchased by a business increase its export costs. In contrast, under the European systems the value-added taxes on such products, since they are all in the base of the tax, automatically are rebated. This was likewise the situation under the turnover taxes, since in large part such goods were under the base of those taxes and figured accordingly in the average rebates. (There are, of course, some specific European excise taxes outside the scope of turnover and value-added taxes that are not being rebated.) The United Kingdom, several years ago, initiated rebates for its special excise taxes—principally the gasoline taxes, motor vehicle license taxes, and purchase taxes on office supplies—on goods purchased by its exporters, and essentially used averages to determine the rebates.

In the United States it has been estimated that the costs attributable to our Federal, State and local taxes on goods bought by manufacturers represent on the average an amount equal to about 2 percent of export sales prices. The impact on product lines differs, of course, with the range running from about 1½ percent to 4 percent of export sales prices. A rebate of these tax costs and a similar import charge, administered through our Customs organization, would reflect for the United States an approach that corresponds to the principal applicable under the value-added and turnover taxes of attempting to keep sales and similar taxes at prior stages of production from increasing export costs and export prices. An approach by the United States to deal with its indirect taxes on a rebate and compensatory import charge mechanism would involve the use of product averages, and this use would be similar to the procedure followed by the Europeans under their turnover taxes. Consideration of this approach in the United States would therefore reflect principles and practices underlying the treatment of indirect taxes in Europe. Moreover, it would parallel the attention to, and consequent changes in, border tax adjustments now generally resulting in Europe from the shift to value-added taxes.

Sales taxes and international trade

But the European efforts to stabilize their sales taxes and border adjustments and then to harmonize them raise even larger issues of trade policy interlocked with tax policy. The European practice of rebates and import charges for turnover and value-added taxes reflects the basic assumption that such taxes are passed along through channels of trade so that their burden is borne by households buying goods for personal consumption. This is the assumption behind the exemption of exports from a manufacturers tax. It is the assumption of legislators who enact wholesale or retail taxes or other sales taxes. As a working assumption for domestic legislation and for general judgments on the distribution of the burden of a tax system, or of a new excise or sales tax, it is a useful operational device. But the balance of payments world of today, with its fixed exchange rates and the attention that must be focused on both the over-all balance and its component parts, including the trade portion, requires much more attention to specifics than ever before. This need for such attention is also heightened by the high levels of tax rates that now obtain under modern tax systems compared with an earlier period, a development that contrasts with the shift to lower levels of tariff barriers that has occurred. If the generality is only a generality and the specific situations show a different posture, then the matter must require a sharper focus.

If sales taxes or other indirect taxes—whether they be value-added, turnover, retail or other tax forms—cannot be fully passed on in price, then a manufacturer selling in his domestic market must lower his prices and reduce his profits. But if the full rebate of the tax cost and the exemption of exports from the tax make it unnecessary to change his export prices, then he is not concerned about passing anything along on an export sale, he need not lower his export price, and his export profits would not suffer as would his domestic profits. The business of exporting becomes that much more attractive, and the sales tax system has become an incentive to export activity. Similarly, on the import side, the importer to meet the competition of lowered domestic prices must reduce his price, his profits decline and he is less interested in pushing those imports. In essence, one gets to the question of tax incidence and whether these sales taxes are fully shifted forward in price or only partly shifted.

Put another way, a value-added tax is carefully structured to pass the tax along in an accounting sense. Its effect on international trade, however, depends on whether the economic effects follow the accounting structure. If the tax is not fully shifted forward in an economic sense, then the international trade of the country using the tax will be favored regardless of the accounting structure.

It is not the levels of rebates per se and the differentials between them that measure the competitive effects of border tax adjustments. If Country A has a value-added tax of 10 percent and rebates to an exporter the total of the taxes, at a 10 percent level, that he has paid on his purchases it is because Country A does not want his tax costs, which are real, to enter into export prices. If Country B has no value-added tax or other sales tax, then there are in this respect no comparable tax costs to rebate to its exporters. But knowing only these facts does not really inform us about trade competitiveness between these countries. We cannot conclude that Country A grants a 10 percent subsidy to exporters while Country B has no subsidy. Nor can we conclude that the goods of Country A have a great advantage entering into Country B because they face no import charge in the latter country whereas the goods of Country B face a 10 percent charge on entering Country A and hence are a great disadvantage in Country A. If sales taxes were fully shifted forward, then the goods of both countries would, as respects sales taxes and border adjustments, be on an equal competitive plane despite the different levels of adjustment. But if such taxes are not fully shifted, then in this regard the exporters of Country A have been advantaged as against the exporters of Country B—not necessarily to the full extent of the differentials in border adjustments but only to the extent to which the tax in Country A is not shifted forward.

Of course, questions of incidence can be raised as to other taxes. The working assumption of legislators for domestic legislation when they consider a corporate income tax is that it is borne by shareholders and not passed forward in higher prices or backward in lower wages or lower raw materials prices. Again, as a working assumption this view of the incidence of the corporate tax is a useful generality. But if it is only a generality and if there is some forward shifting in prices, an exporter has added costs, due to the corporate tax entering into product costs, which are not being rebated and hence which affect his export prices and his external competitive position. Of course, this would be true for an exporter in any country with a corporate tax, including European countries. We should note that the effective rates of corporate income tax in major European countries do not appear to be significantly different from the United States effective rate. Certainly, if a differential does exist between European corporate taxes in relation to the United States corporate tax, it is far less than the differential between European indirect taxes and our indirect taxes. In addition—though there may be no studies on this point—the conditions that may influence a shift forward of the corporate tax into prices, if such shifting does occur, would presumably not differ between Europe and the United States.[8]

These are difficult, intriguing—and highly important—questions. This matter of tax incidence and tax shifting is murky, and it has kept economists busy for decades. Their papers have contributed many volumes to the economic literature—and nevertheless I suspect that the summaries in Economics I are still inconclusive and uncertain. Moreover, one may have to move from incidence and shifting on to levels of taxation and then to levels and allocation of Government expenditures. But clearly the area requires exploration and analysis beyond the generalities.

The problem will become more acute if the Europeans take the next step of harmonizing their indirect tax rates, for this could mean an increase in the value-added taxes—perhaps to 15 percent or more—for all countries except France, which today is at 20 percent (on the value of the product excluding tax).

Certainly, to the extent that the generalities are not fully valid, the disparity in indirect tax levels can only be working to the disadvantage of the United States in world trade. The extent of that disadvantage and the extent to which it has been adjusted for in prior exchange rates and devaluations may be difficult to measure, but the direction is that of disadvantage for the United States.

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[8] For a discussion of the possible effects, considering the various theories of tax incidence, on the balance of payments of a shift in the United States to greater reliance on indirect taxes and less on direct taxes, and the relationship of those effects to the effects on domestic policies and conditions, see Salant, the Balance of Payments Deficit and the Tax Structure (Brookings Institutin, Reprint 80), 1964.

The harmonization of diverse tax systems

As a consequence, these basic aspects of domestic tax systems in their international settings require full international discussion and consultation looking to a solution—a process that is already under way. It is here that we reach an important implication for the United States of European tax harmonization. The premises and rules of GATT with respect to export subsidies and border tax adjustments rest on the generalities of incidence and shifting that I have described. Under those premises and rules the European countries have almost entirely kept their high sales taxes from increasing their export costs and prices. The shift to value-added taxes will underscore this effort and make it easier of accomplishment. In addition, to the extent that the incidence of these taxes in the actual economic world is at variance with those premises and rules, the European tax systems operate in the direction of providing a trade advantage for the Europeans. Looking ahead, most European countries may well be moving to higher sales taxes in the tax harmonization steps needed to perfect their Common Market. Given European tax harmonization, the larger question becomes that of "harmonization" of their tax systems with those of the United States and other countries in a broad sense. This "harmonization of tax systems" does not, however, mean the uniformity of taxes that harmonization connotes within the EEC. Rather, it means the process whereby national tax systems that may differ both in kind and in burdens imposed can coexist in the world without creating difficulties for each other—can coexist in harmony. The full exploration of this question within the GATT and in other ways can take us into many facets of international trade, including those of non-traiff barriers. It can take us into the mechanisms for reaching adjustments between countries in a balance of payments surplus position and those in a deficit position.

Clearly such exploration is needed to preserve freedom of action for countries to establish their domestic tax systems and the distribution of their tax burdens in keeping with their notions of economic growth and tax equity without at the same time prejudicing their international trade position. The essential question is how many countries which desire to rely on a progressive tax structure or countries which do not wish to place heavy overall tax burdens on their people, and hence have no need for high rate sales taxes, continue in these domestic goals and still maintain in their international trade full competitiveness with the European countries which have a different domestic tax philosophy? For surely a better answer can be found than that the rest of the world to protect its trade position must simply emulate the Europeans and their domestic tax philosophies, whatever may be the impact of that emulation on the tax systems and internal economies of the other countries.

The United States—and the rest of the world—thus has a high stake in a full exploration of these issues—issues which are made both more pertinent and more important by the process of tax harmonization in Europe.

EXHIBIT C

[From the Columbia Journal of World Business—May–June 1968]

Set the rates high and cover as many people as possible. The value-added tax will do all this and something more: it will favor exports. It is the latest European position in

THE WONDERFUL WORLD OF TAXES

(By Stanley S. Surrey)

An attorney and Professor of Law, Stanley S. Surrey has had extensive experience in government service. Since 1961 he has been Assistant Secretary of the Treasury for Tax Policy. He is particularly interested in international tax programs and policies and has served on tax and fiscal missions to Japan, Venezuela and Argentina. Mr. Surrey's comments are adapted from his address at a recent meeting of the National Industrial Conference Board.

The tax systems of European Common Market countries have for years been characterized by high rate sales taxes, whose structures were extremely complicated, highly discriminatory and economically inefficient. France, until this year, imposed a 25% tax on a value-added basis; the present rate is 20%. The other countries had multi-stage, cumulative turnover taxes (also called "cascade taxes") which were levied at each stage of the production and distribution process. The German 4% turnover tax rate was thus equivalent to an average rate of 12% on the value of the final product. The French system illustrates the complexities of basic rates followed by innumerable special rates and exemptions characteristic of all European taxes. In addition to the 25% value-added tax (TVA) on manufacturers, wholesalers, and some retailers of goods, there was also a retail sales tax covering other retailers and handicrafts at 2.83%, and a sales tax on services at 13.66%—along with a whole miscellany of specific excise taxes on such items as entertainment, wines, meat, gasoline, transport. Each tax was characterized by a lengthy list of special rates, exemptions, and options.

The German turnover tax of 4% applied at each stage of the business process—producer, manufacturer, wholesaler, retailer—was discriminatory and economically inefficient. At each stage the tax was built into the price and became pyramided and swollen as each sector in turn applied its markup on price plus tax and then added its own tax. The consequence was acute differences in treatment between vertically integrated and non-integrated industries and concerns, between companies which performed some services for themselves and those which hired the services from others. A similar situation prevailed in the other EEC countries under their turnover taxes.

Sales taxes that run as high as 25%, or even 10 to 15%, are not to be treated casually or lightly. They have, at such levels, a high potential for economic mischief. They are also seriously defective.

The catalytic agent for change was the formation of the EEC. If Europe was to become a genuine common market in which goods and capital could move freely, a prerequisite was as much uniformity—harmony—as possible among the tax systems of the member countries.

The problem was clear: How to obtain uniformity out of this maze of high but disparate rates and complicated but disparate structures that characterize the sales taxes of these countries when seen as a whole. The solution chosen was a two-step approach—find a common sales tax structure that each could adopt and then move to uniformity in rates. The tax changes taking place in Europe are in response to the first step, that of a common structure for these sales taxes.

For this first step, the EEC had to answer a question: What type of sales tax structure is best suited in their economies to support a high tax rate? The choices would be among the single stage sales taxes—a manufacturers tax (Canada), a wholesale tax (Switzerland, Australia, United Kingdom), a retail tax (states in the United States, Norway), or a multi-stage tax of the value-added type (France). The multi-stage turnover type tax was not a possible choice, since it was essentially the villain in the existing picture.

A manufacturers tax has the problem of pyramiding through subsequent markups. It also has problems of definition—what is "manufacture" and how far does it reach into assembly, packaging, bottling, etc? The tax at this stage also discriminates against certain forms of distribution (such as manufacturers selling at retail), unless complex adjustments in prices are made for tax purposes. A wholesale tax involves many of the problems that can be found in a manufacturers tax, though in a different degree or form. There is the aspect of pyramiding: the problem of how to handle industries in which retailers perform certain wholesale or manufacturing functions and hence buy at cheaper prices; the problem of wholesalers who also sell at retail or manufacturers who skip the wholesale stage and sell at retail. While these considerations may point to a retail tax, the success of a retail tax can test severely the enforcement capabilities of a country, since the tax involves the largest number of taxpayers to police. In addition, these European countries already had turnover taxes under which each stratum of the economic process was presently being taxed, so that placing a tax at one stage only, say on the retailers, could well create difficult political problems.

The European choice

The Europeans, therefore, turned to the value-added tax, which essentially is a multi-stage sales tax that achieves the end effect of a retail tax on personal consumption (consumption by households as contrasted with businesses). The Germans this year were the first to adopt a new value-added tax to replace their turnover taxes, and it provides an understanding of the emerging European tax picture.

The German tax is imposed at a 10% rate (11% on July 1, 1968) on almost all sales of goods and services by any business. Let us start with a manufacturer: he applies a 10% rate to his total sales to find the preliminary tax due. From this, he subtracts the taxes he has paid on his purchases, and the net is payable to the Government. In essence, the tax is thus on the "value added" by him as represented by the difference between the value of his total sales and the value of his total purchases. "Purchases" include all types of goods and services—components either as raw materials or semi-processed goods; capital goods, such as plant machinery and equipment; goods used up in manufacture; business furniture, etc. The manufacturer, of course, will bill his customer for the 10% tax on the sales price of the articles he sells just as the manufacturer was similarly billed 10% by his suppliers on his purchases. The tax is invoiced separately on all sales and is thus not hidden in the sales price.

The process is repeated at the wholesale stage—the wholesaler pays the Government 10% of his sales less the taxes paid previously by the wholesaler on his purchases—and the wholesaler then bills the 10% tax to his customers. No pyramiding should occur since the taxes paid by the wholesaler are kept apart from the price of the goods he purchases, and he can subtract this tax cost. The process is repeated once again at the retail stage. The retailer pays the Government 10% of his sales, less the taxes the retailer paid, and charges his customer for the 10% tax. The process ends there if the retail sale is for personal consumption—food, an automobile, furniture, clothing. But if a business concern buys the article for use in its business, the process begins again as the concern will subtract the tax on the item from its tax bill.

There is one additional important facet to note. Under the German system, tax is due each month. If a concern has paid more tax on its purchases than is due on the sales to its customers (sales may be slow, for example) the Government makes a refund each month of any excess tax paid, so that the cost of carrying the value-added tax is not borne by the concern beyond a month or two.

All this adds up to a 10% retail sales tax on personal consumption. The 10% value-added levy is designed to be passed along from concern to concern until the consumer is reached, and he is left with the tax. The 10% tax is not intended to enter into the price structure until the final sale. If the tax item is not promptly moved along the business chain, the Government refunds it promptly. If a concern has to finance the tax during this month or two, this cost would enter into the price structure.

Since the economic effect is that of a retail tax, the distortions due to pyramiding, differential burdens on integrated or non-integrated firms and industries, and differences in distribution patterns that are part of a manufacturers tax or a wholesale tax, are essentially avoided. At the same time the pressure for strong policing at the retail level that would exist under a retail tax is eased, since under the value-added approach the tax will have been partially collected at a prior level. If a retailer evades the tax, the Government has at least taxed the value at the wholesale level. And the chances of retail evasion are lessened, since the wholesaler has notified the government of his sales to the retailer.

Not part of business costs

The mechanics of the value-added tax are designed to keep the tax from entering into business costs even when a concern buys goods at retail that are used in its business activities. (A retail tax can meet this problem by exempting such purchases through a registration system; the value-added tax provides a refund of tax instead of exemption.) Of course, the value-added tax does involve pushing every concern into the act, and there is a lot more bookkeeping, tax paying and refunding, and paper passing than would occur under a retail tax. Moreover, the fact that every stage in the production process is nominally taxed can result in pressure drives for rate reductions by industries or groups concerned about their ability to keep passing the tax along. The value-added tax thus has an inherent potential for breeding exceptions and special treatment. But if a country feels it can't efficiently handle a retail tax, then a value-added tax is the next best thing. The Royal Commission (Carter) Report on Taxation in Canada (1966) recommended a retail tax to replace the present manufacturers tax and chose the retail tax in preference to a value-added tax.

The value-added tax is a useful solution to the sales tax structural problems that beset the Europeans and blocked their economic unity. As a consequence, Denmark adopted the tax on July 1, 1967; Germany on January 1, 1968; the Netherlands and Sweden plan to do so on January 1, 1969, and Austria is also hoping to change on that date; Belgium and Luxembourg will presumably do so on January 1, 1970; Italy may not be prepared to switch to TVA by that date. The changes in tax structure do not appear, for the cost part, to be designed to bring about significant changes in the total revenue yield of the various tax systems or of the sales taxes themselves. France has reformed its indirect tax structure to achieve a similar application of the TVA.

It is fair to say that the Europeans, by comparison to their present situation, have evolved a far more workable sales tax capable of application at a high rate—more complicated than is needed where a retail tax would work, but still a workable mechanism. If a country is in the market for a high rate sales tax and if it really believes it cannot handle a retail tax, it should consider the European model.

Rebates

Another aspect of European sales tax systems that has been highlighted in recent years as a result of the U.S. balance of payments problem, is the export rebate and compensatory import tax that characterizes those systems. All countries with significant sales taxes or excise tax systems automatically structure those systems to attempt to keep the taxes from affecting external export prices and to insure the application of the taxes to imported goods. If the tax is a manufacturers tax on the final product, exports are not subject to the tax, or if taxed, can secure a rebate. Imported goods, on the other hand, are subjected to the same tax as is imposed on domestic manufactured goods, so that both goods will compete on equal terms in the domestic market in this respect. The United States does this for its few manufacturers taxes; Canada does the same under its 11% broad manufacturers tax.

If the tax is imposed at the wholesale stage or the retail stage, such rebates and import taxes are not needed: a manufacturer selling goods whether for internal consumption or export is not subject to these taxes; a wholesaler importing goods will pay the tax on his subsequent sale. The sales for export that a wholesaler or retailer may make will be exempted from tax.

The essential principle under which all these taxes are structured is that sales and excise taxes are intended to be paid by domestic consumers in the form of higher prices without handicapping exports or favoring imports.

European turnover taxes followed the same principle but found additional complexities. It was simple to say to a German manufacturing firm that it need not pay the 4% turnover tax on an export sale. But what about the 4% taxes paid by the manufacturer on purchases from its suppliers of materials of almost every sort; these 4% taxes were built into the costs of the manufacturing operation, just as the 4% taxes the suppliers had to pay on their purchases were built into their costs and passed along as part of the prices charged by the suppliers. This is the vice of turnover taxes; they pyramid in prices throughout the economy. The economic effects of these taxes were significant at the high rate levels applied in Europe. The principle of protecting exports, therefore, required a rebate of those taxes previously imposed in the production chain and which cumulated as costs for the manufacturer on its purchases, or for the wholesaler if he was the exporter. But how much should be rebated? The experts had to estimate the amount as high rate taxes were hidden in the price structure and their total would vary with the extent of integration of productive activities in the prior stages. The European countries carefully developed average figures and used them for the rebates. Corresponding figures were used for the import charges.

A common market ideally requires a tax system that does not have complex border adjustments. A common retail tax would accomplish this—as pretty much occurs in the United States—if care is taken to keep the tax from applying to purchases for business purposes. Failing that, if border adjustments are to exist, their calculation should be made with as much precision as possible. It is here that the value-added tax provided an extra advantage for the Europeans. The value-added tax eliminated for internal sales the distortions resulting from pyramiding and differences in integration of business activities, and offered a ready measure of the taxes that the exporting firm had to pay because of its purchases. Under the German value-added tax, a firm is given a "rebate" through refund or credit for all of the taxes it has to pay on its purchases, whether its goods are sold internally or externally. The structure of the tax enables the government to determine the amount of export rebate needed to reflect the exporter's book costs representing the taxes paid on its purchases. It similarly permits the fixing of the amount of import charge to reflect the taxes paid by domestic concerns.

If Europe achieves uniform value-added rates, it could abandon these border adjustments, export exemptions and import charges for intra-EEC trade, and simply go to the rule that the country of origin taxed the sale. It would be a matter of indifference within the Common Market, as far as import and export competitiveness are concerned, whether the exporting company were to grant an exemption or rebate and the importing country impose an identical import equalizations tax (the "destination" approach), or whether the exporting country taxed the export and the importing country did not impose its import tax (the "origin" approach). There would be some effect on national revenues to the extent that trade is not in balance, but this would be minor. The border adjustments would, of course, remain applicable to trade by the EEC with other countries.

The day of uniform sales tax rates will take some time to arrive in Europe. In the meantime the shift to value-added taxes has brought about a precise system of border tax adjustments, given the structure of the taxes, and this will facilitate economic unity within the Common Market. It is in this setting that the question of the external trade of the Common Market countries, particularly with the United States, can be discussed.

In the German situation, the rebates for taxes paid on goods purchased by the exporter and import charges under the value-added tax are turning out to be higher than the averages used under the previous turnover taxes. Presumably, some exporters had not been receiving rebates at the level that appeared to be called for under the turnover taxes. German exporters presumably had adjusted to this situation over the years, and the effect of the undercompensation, if it existed, can no longer be traced through all the prior history of exchange rate changes, devaluations, and the like. The net effect of this sudden increase in export rebates under the value-added tax, while the internal overall burden of the tax remains unchanged, is an advantage to German exporters. Equally, the rise in the import charges is an added competitive burden to imports.

What is happening in Germany is, and will be, reflected elsewhere in Europe as the countries shift to value-added taxes. The Netherlands, Austria, Belgium, and Italy are raising their rebates and import charges under their existing turnover taxes in advance of a later shift to a value-added tax. Sweden is shifting to a value-added tax because it realizes that its previous "retail tax" had been levied on producers' goods and was, in effect, a turnover tax to that extent, but it had not been rebated to exporters. As a consequence, European exporters in general will get an added advantage in most countries.

Coverage increased

There is an additional feature of the shift to a value-added tax that operates to increase this advantage to exporters. Countries with a value-added tax seek to achieve as broad a base for the tax as possible, since it operates effectively to prevent pyramiding as compared with specific excises. In France, for example, the reforms of the value-added tax have tended to increase its coverage and eliminate other taxes. Any commodity previously taxed under a specific excise tax but not swept into a value-added tax immediate falls into the rebate process, under the structure of the latter tax, so that the tax paid no the purchase of the commodity is rebated whether the business concern at that stage is selling internally or abroad. The result is that a number of hidden, and hitherto unrebated taxes, in effect come to light and are rebated and included in the import charge.

What about the rest of the world? The United States does not have a high rate sales tax and only rebates its specific manufacturers taxes on final products. The United Kingdom has a purchase tax at the wholesale level which over-all does not require rebates for tax costs since essentially it does not apply to business purchases. Canada does not apply its manufacturers tax to most business purchases and does not need rebates except for any tax paid on the final products that are exported; similarly neither does Japan for its variety of manufacturers excise taxes. Unlike European countries whose high rate turnover taxes entered into the costs of exported goods through the cost of the goods purchased by the exporter and thus necessitated export rebates and import charges, these countries did not generally apply their sales taxes to business purchases. A high sales tax was therefore not a part of the cost of their exported goods. As a consequence, they have not been rigorous in seeking fully to eliminate indirect taxes from export costs, and do not have a system of export rebates for tax costs or import charges.

The United States, for example, has not sought in the past to determine how much of the Federal gasoline tax, the passenger motor vehicle tax, the truck tax, the telephone tax, or the alcohol tax paid by a manufacturer who exports some of his goods, is allocable to those exports and thus increases their costs. Nor has it sought to determine what part of state and local taxes paid on goods purchased by a business increases its export costs. In contrast, under the European systems the value-added taxes on such products, since they are all in the base of the tax, automatically are rebated. (There are, of course, some specific European excise taxes outside the scope of turnover and value-added taxes that are not being rebated.) The United Kingdom, several years ago, initiated rebates for its special excise taxes—principally the gasoline taxes, motor vehicle license taxes, and purchase taxes on office supplies—on goods purchased by its exporters, and essentially used averages to determine the rebates.

In the United States it has been estimated that the costs attributable to our Federal, state and local taxes on goods bought by manufacturers represent on the average an amount equal to about 2% of export sales prices. The impact on product lines differs, with the range running from about 1½ to 4% of export sales prices. A rebate of these tax costs and a similar import charge, administered through our Customs organization, would reflect, for the United States, an approach that corresponds to the principle applicable under the value-added and turnover taxes of attempting to keep sales and similar taxes at prior stages of production from increasing export costs and export prices. An approach by the United States to deal with its indirect taxes through a rebate and compensatory import charge mechanism would involve the use of product averages, and would be similar to the procedure followed by the Europeans under their turnover taxes. Consideration of this approach in the United States would reflect principles and practices underlying the treatment of indirect taxes in Europe. It would parallel the attention to, and consequent changes in, border tax adjustments, now generally resulting from the shift to value-added taxes.

Trade and tax policies

European efforts to stabilize their sales taxes and border adjustments and then to harmonize them raise even larger issues of trade policy interlocked with tax policy. The European practice of rebates and import charges for turnover and value-added taxes reflects the basic assumption that such taxes are passed along through channels of trade so that their burden is borne by households buying goods for personal consumption. This is the assumption behind the exemption of exports from a manufacturers tax. It is the assumption of legislators who enact wholesale or retail taxes or other sales taxes. As a working assumption for domestic legislation and for general judgments on the distribution of the burden of a tax system, or of a new excise or sales tax, it is a useful operational device. But the balance of payments world of today, with its fixed exchange rates and the attention that must be focused on both the over-all balance and its component parts, including the trade portion, requires much more attention to specifics than ever before. This need for such attention is also heightened by the high levels of tax rates that now obtain under modern tax systems compared with an earlier period, a development that contrasts with the shift to lower levels of tariff barriers. If the generality is only a generality and the specific situations show a different posture, then the matter must require a sharper focus.

If sales taxes or other indirect taxes—whether they be value-added, turnover, retail or other tax forms—cannot be fully passed on in price, then a manufacturer selling in his domestic market must lower his prices and reduce his profits. However, if the full rebate of the tax cost and the exemption of exports from the tax make it unnecessary to change his export prices, he is not concerned about passing anything along on an export sale, and he need not lower his export price. The business of exporting becomes that much more attractive, and the sales tax system has become an incentive to export activity. Similarly, on the import side, the importer to meet the competition of lowered domestic prices must reduce his price, his profits decline and he is less interested in pushing those imports. In essence, one gets to the question of tax incidence and whether these sales taxes are fully shifted forward in price or only partly shifted.

Put another way, a value-added tax is carefully structured to pass the tax along in an accounting sense. Its effect on international trade, however, depends on whether the economic effects follow the accounting structure. If the tax is not fully shifted forward in an economic sense, then the international trade of the country using the tax will be favored regardless of the accounting structure.

Competitive effect

It is not the levels of rebates and the differentials between them that measure the competitive effects of border tax adjustments. If Country A has a value-added tax of 10% and rebates to an exporter the total of the taxes, at a 10% level, that he has paid on his purchases, it means that Country A does not want his tax costs, which are real, to enter into export prices. If Country B has no value-added tax or other sales tax, then there are no comparable tax costs to rebate to its exporters. However, knowing only these facts does not really explain trade competitiveness between these countries. It is not B has no subsidy. Nor can it be concluded that the goods of Country A have an advantage entering into Country B because no import charge is imposed whereas the goods of Country B face a 10% charge on entering Country A and are at a disadvantage there. If sales taxes were fully shifted forward, the goods of both countries would, in terms of sales taxes and border adjustments, be on an equal competitive basis in spite of the different levels of adjustment. When such taxes are not fully shifted, the exporters of Country A have an advantage over the exporters of County B—not necessarily to the full extent of the differentials in border adjustments but rather to the extent to which the tax in Country A is not shifted forward.

U.S. disadvantage

These are difficult, intriguing—and highly important—questions. They will become more acute if the Europeans take the next step of harmonizing their indirect tax rates; this could mean an increase in the value-added taxes—perhaps to 15% or more—for all countries except France, which today is at 20% (on the value of the product excluding tax).

Certainly, to the extent that the generalities are not fully valid, the disparity in indirect tax levels can only work to the disadvantage of the United States in world trade. The extent of that disadvantage and the extent to which it has been adjusted for in prior exchange rates and devaluations may be difficult to measure, but the direction is disadvantageous to the United States.

As a consequence, the basic aspects of domestic tax systems in their international settings require full international discussion and consultation looking to a solution—a process that is already under way. The premises and rules of GATT with respect to export subsidies and border tax adjustments rest on the generalities of incidence and shifting. Under those premises and rules, the European countries have almost entirely kept their high sales taxes from increasing export costs and prices. The shift to value-added taxes will underscore this effort and make it easier of accomplishment. To the extent that the incidence of these taxes in the actual economic world is at variance with those premises and rules, the European tax systems tend to provide a trade advantage for the Europeans. Looking ahead, most European countries may well be moving to higher sales taxes in the tax harmonization steps needed to perfect their Common Market. Given European tax harmonization, the larger question is really "harmonization" of their tax systems with those of the United Sates and other countries in a broad sense. This "harmonization of tax systems" does not mean the uniformity of taxes that harmonization connotes with the EEC. Rather, it means the process whereby national tax systems that may differ both in kind and in burdens imposed, can coexist in harmony. The full exploration of this question within GATT and in other ways involves many aspects of international trade, including those of nontariff barriers, and the mechanisms for reaching adjustments between countries in a balance of payments surplus position and those which are in a deficit position.

Clearly, such exploration is needed to preserve freedom of action for countries to establish their domestic tax systems and the distribution of their tax burdens in keeping with their notions of economic growth and tax equity without at the same time prejudicing their international trade position. The essential question is how may countries which desire to rely on a progressive tax structure or countries which do not wish to place heavy overall tax burdens on their peoples and have no need for high rate sales taxes, continue with these domestic goals and still maintain in their international trade full competitiveness with the European countries which have a different domestic tax philosophy? Surely a better answer can be found than that the rest of the world, to protect its trade position, must simply emulate the Europeans and their domestic tax philosophies, whatever may be the impact of that emulation on the tax systems and internal economies of the other countries.

EXHIBIT D

[From the OECD Observer—October 1967]

BORDER TAX ADJUSTMENTS

During the last four years there has been much discussion within and outside the OECD concerning the effects on international trade of the different tax structures and tax systems of Member countries. These effects are determined largely by the border tax adjustment practices at present in existence.

Among the questions provoked are whether some indirect tax systems are more balance-of-trade advantageous than others, whether reliance on consumption rather than income taxes is likely to improve a country's balance-of-trade position and whether changes in domestic taxation may as a result of the border tax adjustment mechanism have devaluation effects, and if so what should be done about it.

This article was written by Mr. Kenneth Messere, Secretary of the Fiscal Committee of OECD.

THE PROBLEMS CREATED BY BORDER TAX ADJUSTMENTS

As export subsidies are disallowed under GATT regulations and tariff barriers are being reduced, either as a result of measures taken by regional groupings such as the EEC or EFTA or as a result of GATT negotiations, attention has become concentrated more on other possible barriers to international trade. In recent years there has been a great deal of discussion on border tax adjustments, which are believed by some to lead to the same devaluation effects as an export subsidy or import duty, even though their avowed purpose is to put exports on the same footing as similar goods produced in other countries on the one hand. and imports on the same footing as home-produced goods on the other.

Arrangements have always been made to ensure that goods exported from one country to another are not subject to the same taxes in both countries, on the one hand, and do not escape taxation altogether, on the other. Avoidance of double taxation or nontaxation may be broadly effected in two ways: the goods may be subject to the taxes of the exporting country (the so-called country of origin principle) or to the taxes of the importing country (the country of destination principle).

While border tax adjustments may be defined in various ways, it is most convenient for dealing with the problems which they present to regard them as the fiscal adjustments which are necessary to put into effect the destination principle. That is to say they cover both the exemption from tax, or the repayment of tax already paid in the exporting country, and the imposition of taxes corresponding to the internal taxes of the importing country, whether such imposition takes place at the time the goods are imported or subsequently. Under present international practices, which are based on the rules formulated in GATT, indirect taxes on goods themselves, whether known as sales taxes, turnover taxes, value-added taxes, excise taxes or resulting from State monopolies are considered eligible for border tax adjustments while other taxes such as income taxes, profits taxes, payroll taxes, social security and property taxes are not generally regarded as eligible; to put it differently the principle of destination generally applies to indirect taxes on particular goods while the principle of origin applies to other kinds of taxes.

While the main question remains how far border tax adjustments are neutral in their effects on international trade and how far they favour some countries at the expense of others, further analysis indicates that there are three entirely different kinds of questions involved.

The technical question.—Do some countries make greater border tax adjustments than others in relation to the domestic tax burden because of the way in which their systems of tax adjustments are operated? This involves the study of the types of indirect tax system in operation, the way in which border tax adjustments operate under each system and the treatment of indirect taxes on capital equipment, auxiliary materials or services used in the production of goods (see below under "taxe occulte").

The theoretical question.—Do countries relying for their revenue predominantly on taxes eligible for border tax adjustments have a balance of trade advantage over countries relying to a greater extent on ineligible taxes? This is primarily a question of economic theory centering upon the controversial question of how taxes are shifted into prices.

The practical question.—Can changes in border tax adjustments within the existing permitted practices affect competitive trading positions of countries? And, if so, what should be done about it? This further question involves considerations of international trading relations (should existing practices be modified?) international fiscal questions (should tax systems be harmonised?) and international co-operation (what action cay be taken to counter any harmful trading effects flowing from changes in border tax adjustments) of a particular country?

THE TECHNICAL QUESTION

Apart from excise taxes, stamp duties and State monopolies which in the main present only minor problems, there are two questions to be resolved in determining whether or not the practical operation of border tax adjustments influences competitive trading positions.

Are border tax adjustments likely to be greater or less according to which system of indirect taxation is in operation?

What is the extent of "taxe occulte" in the indirect tax system and how much of it is eligible for border tax adjustments?

To answer the first of these questions it is necessary to describe briefly the three kinds of indirect tax system in operation, i.e.:

Single stage or sales tax;
Multi-stage non-cumulative or value-added tax (TVA);
Multi-stage cumulative or turnover or cascade tax.

Taxes are levied sometimes at manufacturer level, sometimes at wholesale level and sometimes at retail level. The normal method of administering these taxes is to register traders who are made responsible for paying the tax. Registered traders may import or buy taxable goods from other registered traders without having to pay the tax, which in most cases becomes due when the goods are sold to an unregistered person. It usually becomes due also if a registered trader uses the goods for his own business, but materials for making goods can usually be bought by manufacturers free of tax.

Value-added tax (TVA)

The main characteristic of the value-added tax is that, although tax is collected each time an article (or its components) is sold, it is assessed only upon the value that has been added at the particular stage. The sum of the values added at successive stages is equal to the final price of the product, so that the sum of the tax paid at the different stages will equal the tax which would have been payable if it had been collected instead as a single payment at the final stage. Thus TVA is like a multi-stage tax as regads its methods of collection and like a single-stage tax as regards the amount finally collected.

Cascade tax

Tax is generally chargeable whenever a sale is made by one firm to another. Rates of tax are generally low but large yields result from this multiple application, by which tax falls not only on the finished products, but also on their constituents at each separate stage of production. Tax enters into cost at each stage as it is charged, so that apart from any variations in rate, the tax element in final prices will vary from one article to another according to the number of stages through which production has passed and the overhead costs and profit margin at each stage. It is not clear for any given class of product what is the tax burden, since this varies according to the number of times components are bought and sold during the process from a raw material or component to finished product. The significance of this as regards border tax adjustments is that in fixing the amount to be repaid to an exporter or the amount to be charged to an importer to compensate for tax borne on similar products on the home market, it is necessary to base calculations upon an assumed average tax burden for the class of product in question.

Comparison between tax systems

In the light of the above descriptions Table 1 can be constructed to show first how the border adjustment mechanism works for each tax system and secondly the amount of the border tax adjustment under each system. The table is simplified in that it does not deal with the relatively minor question of the varying values on which tax is assessed, nor with the more important problem of "taxe occulte", which is, however, discussed below.

Two conclusions may be drawn from this table. In the first place, contrary to statements sometimes made in countries with sales taxes, a TVA tax has no advantage over a sales tax from the point of view of increasing border tax adjustments. It is true that under the TVA tax it happens more often than under a sales tax that an exporter pays tax and then has it refunded instead of not paying tax at all, but even under a TVA tax exporters more often than not are exempt from tax rather than paying it and having it repaid. The widespread notion that TVA means larger border tax adjustments than sales taxes is probably due to the fact that existing sales taxes such as the British purchase tax or Swiss sales tax are of less wide coverage and/or lower rate than the French TVA or other contemplated TVA systems, and it may be politically feasible to extend the scope of a sales tax or to raise the rate only by changing to a TVA tax.

But while an increase in coverage or rates will increase border tax adjustments, this has nothing to do with the mechanism of the tax. On the import side the main difference between a sales tax and a TVA tax is that the TVA tax is paid at the time of importation, while the sales tax, more often than not, is paid subsequently at the time when the goods are sold by a registered trader to an unregistered trader or consumer, but this difference in the mechanism of the border tax adjustment does not affect the amount of the adjustment.

The second conclusion is that the important difference is between the cascade system where the amount of tax rebated on export or charged on import has to be estimated and other systems where the amount is exactly known. The question then arises whether, in countries operating a cascade tax, export rebates and import surcharges are higher or lower than would be the case if they could be calculated exactly. While the answer to this question varies from country to country, product to product, industry to industry and enterprise to enterprise, it can be said that the border tax adjustments of countries operating cascade systems are more likely to be too low to compensate for the home tax burden that too high.

1. BORDER TAX ADJUSTMENT MECHANISM

EXPORTS

Category and system (and member countries operating it)	Method of adjustment	Amount refunded
A—Sales tax at manufacturer level (Canada, Japan, United States).	Exporter does not normally pay tax but sometimes tax already paid is refunded.	Usually none, but if so, actual tax paid.
B—Sales tax at wholesale level (Portugal, Switzerland and United Kingdom).	do	Do.
C—Sales tax at retail level (Iceland, Ireland, Norway, Sweden)	Exporter does not pay	None.
D—TVA tax (France, and since July 1967, Denmark).	Exporter does not usually pay tax but often tax already paid is refunded.	Actual tax paid.
E—Cascade tax (Austria, Belgium. Germany, Italy, Luxembourg, Netherlands, Spain.)	Tax already paid by exporter is refunded.	Estimated tax paid.

IMPORTS

Category and system	Method of adjustment	Amount charged
A—Sales tax at manufacturer level	Tax normally paid at time of importation but sometimes subsequently.	Tax borne on similar domestic products.
B—Sales tax at wholesaler level	Tax normally paid subsequently to importation when tax is due on similar domestic products but sometimes paid at importation.	Do.
C—Sales tax retail level	do	Do.
D—TVA tax	Tax paid at time of importation	Do.
E—Cascade tax	do	Estimated tax borne on similar domestic products.

Among the reasons for coming to this conclusion are first that more of the countries operating cascade systems belong to the European Economic Community and it is among the tasks of the EEC Commission to ensure that on average border tax adjustments are not too high, and the EEC Commission have, in fact, estimated that in Belgium, the Netherlands and Germany border tax adjustments represent about 60% to 70% of the permitted amount (for Luxembourg the percentage is lower and for Italy it is higher); secondly these figures have been confirmed to some extent by Germany's prospective change-over from a cascade to TVA tax, for a 4% cascade tax is expected to produce the same revenue as a 10% TVA tax, so that for a consumption tax producing this amount of revenue the appropriate rate of border tax adjustments would be 10%, whereas under the existing cascade system Germany's border tax adjustments are usually in the region of 6 per cent; thirdly, in calculating the tax paid at previous stages on a class of products to be rebated on export or equalised on import, certain indirect taxes paid on such products or on their components or on the capital equipment, materials or services used in their production are not included in the calculation.

"Taxe occulte"

This third reason leads naturally to the consideration of "taxe occulte" which may be defined as the indirect taxes on capital equipment (e.g. machinery and vehicles), auxiliary materials (e.g. hydrocarbon oils and packing), or services (e.g. transport and advertising) used in the production of goods. Its significance as regards border tax adjustments is first that there is considerable variation as between countries both in the amount of "taxe occulte" and in the proportion of it subject to border tax adjustments, and secondly that, like a cascade tax, the amount attributable to individual exports or imports cannot be known exactly, so that any rebate or equalisation charge has to be calculated either according to the average rate borne by the class of article exported or imported or according to the average rate paid by the industry manufacturing the exported or imported article.

While the situation varies from country to country, those countries operating cascade systems probably have the highest amount of "taxe occulte", first because the coverage of such systems is generally very wide and secondly because the cascade system results in a proportion of the tax on the capital equipment, auxiliary materials and services being taxed again each time the article produced is sold. A varying proportion of this "taxe occulte" is however rebated on export and imposed on import.

The value-added tax has also a wide coverage but eliminates much "taxe occulte" by a fiscal device known as "financial deductions" under which manufacturers are reimbursed certain "taxe occulte" paid. In France, the only country with much experience of a value-added tax, such reimbursements do not cover, however, the "taxe occult" on hydrocarbon oil, on motor vehicles, or on services, so that much remains. Under the value-added tax systems at present in force there has been no border tax adjustment, either on export or import, to take account of "taxe occulte" borne on the home market.

The amount of "taxe occulte" under sales tax is much more variable, since the coverage of sales tax varies considerably. Apart from the British export rebate scheme which provides for border adjustment in respect of "taxe occulte" on exportation, there have been no border adjustments to take account of "taxe occulte" borne on the home market in countries applying sales taxes.

Apart from "taxe occulte" in respect of cascade taxes, value-added taxes and sales taxes, the most important element of "taxe occulte" is probably due to the excise tax on hydrocarbon oil, which is required for transporting goods. The British export rebate scheme takes account of this in computing the rate of export rebate, but otherwise border tax adjustments are not made, either on export or on import, to take account of "taxe occulte" in respect of excise duties.

The variations between Member countries both as regards the amount of "taxe occulte" in the tax system and the treatment of it with regard to border adjustments is summarised in Table 2.

Conclusions on the technical question

The foregoing description indicates that it is possible to come to provisional conclusions on the question of whether the amount of border tax tax adjustment in relation to the indirect tax burden is likely to vary according to the way in which the adjustment system operates. The first conclusion is that overall the border adjustments of countries operating cascade taxes are likely to be relatively lower than those of countries operating value-added taxes or sales taxes, though they may be higher for particular products or particular industries. The second conclusion is that there is likely to be variation between countries due to variations in the amount of "taxe occulte" caused by the tax structure and variations in the amount of such "taxe occulte" which is adjusted at the border.

THE THEORETICAL QUESTION

It has been argued that countries relying predominantly for their revenue on taxes eligible for border tax adjustments (that is to say indirect taxes on goods) have a balance of trade advantage over other countries, since the effect of border tax adjustments is to make exports cheaper and imports more expensive. It has been generally agreed that the existing system of border tax adjustments would be neutral only if taxes eligible for border adjustments were fully shifted into prices, while ineligible taxes were not shifted at all—that is to say that an increase in an indirect tax on an article would result in an equivalent increase in the price of the goods, while an increase in other taxes would have no effect at all on prices. For if a tax is fully reflected in the price of a home-produced article it appears justifiable to put an equivalent tax on a similar imported article and not put a tax on such an article which is to be exported.

If, on the other hand, the tax is not fully reflected in the price of the domestic article, it is arguable that to the extent that the tax is not shifted forward, an import equalisation tax has the effect of an additional customs duty and remission of the tax on exportation has the effect of an export subsidy. Despite this agreement on what would constitute a neutral system, there remain different opinions on whether or not the existing system is neutral.

The tax shifting controversy

The tax shifting controversy has centred on the relative degree of shifting of consumption taxes (which are eligible for border adjustment) on the one hand and profits taxes (which are ineligible for the border tax adjustment) on the other. According to classical theory, consumption taxes are treated as costs and fully reflected in prices. This conclusion has been challenged on the grounds that rising costs result in a fall in demand, and that to maximise total profits the seller will reduce his profit (i.e. bear part of the tax himself) on each individual article in order to prevent the total demand from falling too greatly.

The theoretical argument becomes more and more complicated because various reasons can be adduced for suggesting that such taxes are not fully shifted (e.g. government expenditure on transport, social security benefits, etc. out of revenue derived from the tax help to reduce business costs; the effective tax rate is less than the nominal rate because of tax-evasion, etc.), while other arguments can be suggested for believing that a rise in such taxes may lead to an even greater rise in prices than the rise in tax itself (e.g. the initial influence of an increase in indirect taxes on prices will involve wage increases which will increase costs, which will result in further price increases; sellers tend to take the opportunity of tax increases to put prices up additionally to cover other rising costs).

Further complications arise because shifting will vary from article to article depending upon their elasticity of supply and demand and according to the state of the economic and governments' monetary and pricing policies.

At first sight it might seem that this controversy could be settled by examining the facts. One is after all simply asking in general terms, if an article priced at 10 units is taxed an additional 2 units, will the new price be 11 or $11\frac{1}{2}$ or 12 or $12\frac{1}{2}$? While it is true that further factual enquiries may help to shed light on the question; there still would remain a great deal of interpretation to be done. For while it may be agreed that the object is to compare pre-tax prices with post-tax prices, it is not clear what period should be taken. In the very short term the full effects of the tax change may not have time to make themselves felt (e.g. the seller may begin by trying to pass the total increase to the buyer but later reduce his prices) while, in the longer term, factors totally unconnected or only remotely connected with the tax change may also affect prices.

The above simplified account suggests that the problem of the extent to which prices are affected by changes in consumption taxes is difficult to resolve. The question of the effect of business profits taxes on prices of goods is even more difficult, for the theoretical arguments in favour of a particular view of the shifting of these taxes are more abstract and the verification of the facts more complicated. Consequently it is not altogether surprising that some writers appear to think that an increase in profits tax will have no effect on the price of the goods produced by the taxpaying companies, while others think that the effect on such prices is even greater than that of an equivalent increase in a consumption tax.

Even those who are of the opinion that consumption taxes are not fully shifted into prices and that profits taxes are appreciably shifted, so that the GATT rules are not entirely logical and their effects not entirely neutral as regards international trade, tend to recognise certain offsetting factors. The first is that while these writers consider that it is primarily countries with a relatively high reliance on profits taxes (e.g. United States) which are placed at a disadvantage by existing border tax adjustment practices, they accept to varying degrees that the same kind of tax shifting argument which they apply to profits tax may also be applied to social security charges (especially that part paid by employers), which are also inelegible for border tax adjustment, and it so happens that countries relying most heavily for their revenue on consumption taxes also have some of the heaviest social security charges (in particular France and Italy).

Secondly, while some countries rely more heavily than others for their revenue on profits taxes, there is not a great deal of difference between relative rates of profits tax between Member countries of the OECD, so that to allow border adjustments to be made in respect of profits taxes—apart from the difficulty in devising a means of calculating them, which is a separate question—would be unlikely to affect greatly competitive positions.

Finally, it has been suggested that any advantage accruing as a result of border tax adjustment practices to countries relying predominantly on consumption taxes may have been largely offset over the years by changes in exchange rates and general price levels.

Conclusion on the theoretical question

The theoretical question of whether existing border tax adjustment arrangements favour some countries at the expense of others as a consequence of their different tax structures remains unresolved largely because the question of the extent to which various kinds of tax affect prices of articles also remains unresolved. Consequently it cannot be determined whether a more neutral result could be obtained by some other border tax adjustment arrangement which either restricted or extended the taxes to which the principle of destination applied.

It is, however, generally considered that even if existing arrangements have some distorting effect on international trade, this is likely to be slight, and it is not generally believed that any alternative border tax adjustment arrangements would effect sufficient improvement in present practices as to warrant the substantial political and practical difficulties that their introduction would cause. Changes in border tax adjustments within the existing arrangements, whether or not resulting from changes in the structure or rates of internal taxation, present an entirely different set of questions however and this leads to the practical question now to be discussed.

THE PRACTICAL QUESTION

The practical problem is what can or should be done about the effects on countries' international trading positions following from changes in border tax adjustments.

It is immediately clear that changes in border tax adjustments unaccompanied by changes in domestic taxation will affect the trading position of a country, since such changes affect the prices of exports and imports without affecting the price of domestic products. Such changes usually occur in practice because countries operating cascade systems on revising their calculations consider that the export rebate or import equalisation tax on particular products is too low to compensate for the home burden. Whether or not this view is justified, exports of the product in question become cheaper and imports more expensive, so that the trading relationship with other countries is affected.

A more important, because more general, example of changes in tax adjustments unaccompanied by changes in domestic taxation, is the possibility of a country deciding to compensate for "taxe occulte" when it has not hitherto done so. In some countries full compensation for such "taxe occulte" would probably amount to something approaching 5 to 10 per cent of the value of certain products. The possibility of an increase of an amount of this magnitude on imports by way of border tax adjustment illustrates the potential importance of the question since it could, for example, nulify some of the tariff reductions negotiated during the Kennedy Round.

In practice, greater consequences to international trade will probably follow from changes in border tax adjustments resulting from changes in domestic taxation. The most important of these are likely to result from the change from the cascade tax to a value-added tax by the countries of the EEC. While it should be emphasised that the change of the EEC countries to a value-added tax is partly to harmonise the indirect tax system of the Six and partly because the cascade system favours integrated enterprises and allows border tax adjustments to be calculated only on an approximate basis, so that the probable devaluation effects of the change will be largely accidental, they may nevertheless be considerable. It has unofficially been estimated, for example, that the proposed change in Germany, which will take effect on 1st January, 1968, may have the effect of a 3 to 4 per cent devaluation of the mark.

Apart from the changes contemplated by EEC countries changes in international trading positions may also occur through the effect of increased border tax adjustments, resulting from a reduction in rates of direct taxes or social security charges combined with an increase in consumption taxes. The effects this time are less clear, however, because they depend upon suppositions about tax shifting discussed above.

Extreme remedies to these probable disturbances in trading positions have been generally considered to be out of place. Fiscal changes may be made to raise revenue, for growth or income distribution or other purposes, and to attempt to restrict fiscal freedom in the interests of maintaining existing border tax adjustments seemed undesirable as well as impractical. Solution by general harmonisation of tax systems of Member countries appears unrealistic at this stage for similar reasons, and as mentioned above, so does the formulation of entirely new border tax adjustment rules to replace those accepted in the GATT.

2. SIMPLIFIED ANALYSIS OF TAXE OCCULTE

(Tax on goods and services used in the production of other goods)

Country	Auxiliary materials		Capital equipment		Services	
	Whether taxed	Whether any tax refund for exports and equalisation tax on imports	Whether taxed	Whether any tax refund for exports and equalisation tax on imports	Whether taxed	Whether any tax refund for exports and equalisation on imports
AUSTRIA	○	●	○	●	○	◉
BELGIUM	○	●	○	■	○	■
CANADA (Federal)	●	■	●	■	○	⊠
FRANCE	●[1]	■	◉[1]	■	◉[1]	■
GERMANY	○	●	○	●	○	●
ICELAND	○	■	○	■	○	■
IRELAND	□[2]	■	□[2]	■	□[2]	■
ITALY	○	●	○	●	○	●
JAPAN	□	■	⊠		■	
LUXEMBOURG	○	▲[3]	○	▲[3]	○	▲[3]
NETHERLANDS	○	●	○	■	○	■
NORWAY	□	■	○	■	◉	■
PORTUGAL	⊠		■		⊠	
SWEDEN	●	■	○	■	○	■
SWITZERLAND	●	■	○	■	⊠	
UNITED KINGDOM	□	▲	□	▲	⊠	
UNITED STATES (Federal)	□	■	□	■	⊠	

● yes ○ usually ◉ sometimes	■ no □ rarely ⊠ never
▲ only for exports	

1. *Taxable: but with certain exceptions tax is subsequently deducted.*
2. *Normally taxed: but tax is not paid when used by registered traders.*
3. *There is a small refund to cover tax previously borne, which may cover in part "taxe occulte".*

Work in OECD on this question

In March 1965 a Working Party of the OECD Council was set up to consider the questions raised by border tax adjustments in the light of a fact-finding report on the subject by the Secretariat and a discussion of the economic rationale of existing border tax adjustment arrangements, by a symposium of economists. Broadly they came to the conclusions outlined above that while it was unclear whether or not existing border tax adjustment arrangements placed countries with certain tax structures at a competitive disadvantage as regards international trade, permitted changes in border tax adjustments could have repercussions on trading positions.

For the reasons indicated above, the Working Party did not consider themselves justified in recommending such radical proposals as harmonisation of the tax structures of Member countries or changes in existing border tax adjustment practices, but they agreed that a country should have the right to request consultation when it considered that its trade interests were affected as a result of a change or proposed change in the border tax adjustments of another Member country. The Working Party accordingly recommended that a consultation procedure be established for an experimental period of two years.

While recognising that the question of consultation before a change was put into effect could raise political and constitutional difficulties, the Working Party considered that such prior consultation should take place whenever possible, so that the views of governments who felt that they would be adversely affected by the proposed change could be fully taken into account by the government proposing the change. It was agreed that such consultation should be confined to the general policy implications concerning the international trade and payments effects of changes in border tax adjustments and that the domestic reasons for changes in taxation should be outside the scope of the consultation procedure.

The Working Party also recommended that all important changes in border tax adjustments should be notified to OECD as soon as they were made known to the public of the country concerned and that the Secretariat should bring up-to-date their 1964 fact-finding report. These recommendations were endorsed by the Fiscal Committee and Trade Committee of OECD and adopted by the Council on 21st February, 1967.

Exhibit E

INDIRECT BUSINESS TAXES IN SELECTED EUROPEAN COUNTRIES NOT REBATED ON EXPORTS OR IMPOSED ON IMPORTS [1]

BELGIUM

Tax	Base	Rate
1. National and local property tax (not clear whether considered a property or an income tax).	Cadastral income from real property	Total range 20 to 25 percent of base.
2. Tax on royalty agreements	Contracts made in Belgium for licensing of intangible assets as patent rights and trademark.	7 percent.
3. Tax on transport contracts	Contracts for transport and certain other ancillary services to transport in Belgium.	Do.
4. Excises	Beer, spirits, tobacco, mineral oil, sugar, etc.	Do.
5. Local tax on motive power	Indicated power of electric motors	150 to 250 frs. per kilowatt.
6. Local tax on numbers employed	Number of employees on fixed annual date.	Generally 200 frs.
7. National and local motor vehicle tax.	Horsepower	Varying amounts.
8. Registration duties	Business capital	2.5 percent.
9. Do	Real property	12.5 percent.

See footnote at end of table.

Exhibit E—Continued

INDIRECT BUSINESS TAXES IN SELECTED EUROPEAN COUNTRIES NOT REBATED ON EXPORTS OR IMPOSED ON IMPORTS [1]—Continued

BELGIUM—Continued

Tax	Base	Rate
1. Land tax (Federal and local)	Presumed income from land as determined by 19th century surveys.	National rates, land 6% building 4.86%. Provincial surcharge of up to 60%. Municipal surcharge of up to 60% on buildings, 30% on land.
2. Motor vehicles		
3. Registration duties	Capital of companies and parternships limited by shares.	2.5 percent on subscribed and paid-up capital.
4. Stamp duty	Legal documents, domestic bonds, and debentures.	Varying rates.
5. Excise taxes	Beer, spirits, tobacco, sugar, and gasoline.	

UNITED KINGDOM

Tax	Base	Rate
1. Selective employment tax (not clear whether or not part of social insurance).	Employees	Varying rates (the tax is entirely refunded with a premium to some industries; refunded entirely in others; not refunded for service and construction forms).
2. Automobile tax	Automobiles	17½ pounds annually.
3. Local rates	Annual rental value including certain machinery.	Varying rates.
4. Stamp duties	Documents (not transactions)	Do.

ITALY

Tax	Base	Rate
1. Registration tax	Registration of deeds, formation of companies and partnerships.	Varying rates.
	Contribution of industrial assets or buildings.	3.15 percent.
	Contributions of other real property and an increase of capital.	7.5 percent.
2. Tax on bonds and debentures	Value of instrument issued	0.5 percent except 0.125 for credit institutions and holding companies.
3. Mortgage tax	Registration of mortgages	2.5 percent of sum registered.
4. Insurance tax	Premiums on insurance policies	Varying rates.
5. Stamp duty	Wide variety of documents as bills of exchange, cheques (includes export invoices).	Do.
6. Advertising tax	Advertising in any medium	Varying rates.
7. Motor vehicle fees	Motor vehicle registration horsepower	Varying amounts.

GERMANY

Tax	Base	Rate
1. Insurance tax	Insurance payments in Germany	5 percent of amount of insurance paid.
2. Land purchase tax	Purchases of real estate and other property.	7 percent.
3. Local trade tax	Business profits, capital, and payrolls	Varying rates.
4. Local real estate taxes	Land and buildings	Rates vary from 0.5 percent to 3.0 percent.
5. State general property tax	Property (including capitalized value of patents).	Varies but is estimated at 1 percent on the average.
6. Motor vehicle tax		
7. Capital transactions tax	Issuance of new shares	2.5 percent.
8. Excises	Tobacco, gasoline, and fuel oils	
9. Net wealth tax	All corporate capital assets	1 percent.
10. Bill of exchange tax	Face value of bills drawn in Germany and first German holder of bills drawn abroad.	0.15 percent.

See footnote at end of table.

EXHIBIT E—Continued

INDIRECT BUSINESS TAXES IN SELECTED EUROPEAN COUNTRIES NOT REBATED ON EXPORTS OR IMPOSED ON IMPORTS [1]—Continued

FRANCE

Tax	Base	Rate
1. Registration tax	New subscription of capital	1 percent.
	Capitalization of reserves	12 percent.
2. Local business tax	Annual rental value of buildings, plant, and numbers employed.	Varying rates.
3. Local property tax	Annual rental value of buildings and land employed by a business.	Do.
4. Motor vehicle taxes	Annual and special use taxes, annual axle tax, one-time license tax, parking fees.	
5. Gasoline taxes	Internal consumption	47 cents per gallon.
	TVA	10 cents per gallon.
6. Employer tax on wages	Payrolls (85 percent for local government uses and not for social insurance).	
7. Transfer tax	Transfers of property	Varying rates.
8. Apprentice tax	Gross wages and salaries	0.4 percent.
9. Housing contributions	Gross payroll of employers of 10 or more people.	1 percent.

1 Excludes social insurance taxes.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

Mr. ULLMAN. Thank you. I am not going to take any additional time except just to make a general statement that the general figures that you present, and you figures, Mr. Secretary, with respect to the general balance of trade problem are I am sure accurate, but they do show, do they not, that the trend line between exports and imports, even when you look at the overall picture, is toward a declining surplus of trade? Is that not true?

Secretary SMITH. That is correct.

Mr. ULLMAN. You have just given us the comparison between 1960 and 1967 but I would hope that you might do that on a year by year basis so we would know how it proceeded each year.

Secretary SMITH. We will be glad to provide it.

(The following table was received by the committee:)

ANNUAL VALUE OF U.S. EXPORTS, IMPORTS, AND MERCHANDISE BALANCE

[In millions of dollars]

Year	U.S. exports					U.S. mports		Gross merchandise balance [1]
	Domestic and foreign			Domestic merchandise	Foreign merchandise	General	For consumption	
	Total	Military grant aid	Excluding military grant aid					
1967	31,534	592	30,942	31,147	387	26,816	26,732	4,126
1966	30,320	940	29,379	29,884	436	25,542	25,360	3,837
1965	27,478	779	26,700	27,135	343	21,366	21,283	5,334
1964	26,508	818	25,690	26,156	352	18,684	18,600	7,006
1963	23,347	920	22,427	23,062	285	17,140	17,002	5,287
1962	21,700	727	20,973	21,431	269	16,392	16,253	4,581
1961	20,999	810	20,189	20,754	245	14,716	14,660	5,473
1960	20,584	949	19,635	20,383	201	15,019	15,015	4,616
1959	17,645	1,227	16,418	17,461	184	15,629	15,416	789
1958	17,916	1,543	16,373	17,751	165	13,262	13,218	3,111
1957	20,862	1,355	19,507	20,682	180	13,261	13,229	6,246
1956	19,095	1,757	17,338	18,945	150	12,777	12,677	4,561
1955	15,547	1,256	14,291	15,419	128	11,495	11,448	2,796
1954	15,110	2,255	12,854	14,981	129	10,295	10,320	2,559
1953	15,774	3,511	12,262	15,652	122	10,914	10,820	1,348
1952	15,201	1,997	13,203	15,049	152	10,753	10,782	2,450
1951	15,032	1,065	13,968	14,879	153	10,998	10,848	2,970
1950	10,275	[2] 282	9,993	10,142	133	8,874	8,765	1,119

[1] Balance represents exports excluding military grant aid valued f.a.s. less imports which are valued generally at the market value in the foreign country. Export values include both commercially financed shipments and shipments under government-financed programs such as AID and Public Law 480.

[2] Includes data from April when shipments under the program began.

Mr. ULLMAN. But when you make application of this general principle to individual industries then you may have a totally different picture, may you not?

Secretary SMITH. That is correct.

Mr. ULLMAN. And when we have the individual industries and commodities coming before us I am sure they are not going to show us the same general trend, even the moderate decline.

In some cases industries have suffered a drastic decline in trade balance, have they not?

Secretary SMITH. I think that would probably be true.

Mr. ULLMAN. And some of these industries are rather key industries in this Nation and I think that we can't adopt the general philosophy, that we can sacrifice some industries for the general good. The problem is, How do industries survive?

We are finding that some of these industries are at the point now where they can't afford the technological innovations that would make them competitive. Would you think that that might be true?

Secretary SMITH. I don't know. I would imagine you will have some of these individuals in to testify here. We will follow it with great interest.

Mr. ULLMAN. If the immediate threat to their market situation because of increased imports is such that they can't afford to go forward with technological innovations, then we become less and less competitive and the industry becomes more and more marginal.

Ambassador ROTH. Mr. Chairman, may I just make one comment on the fact of our declining trade balance?

We do have the figures available and will make these a part of the record. When you look at our trade balance we too often look at, I think it was 1964, when we were up in excess of $7 billion and we have come down since then. But looking at it over 10 years, you find a pattern of ups and downs and no consistent direction, because our trade surplus depends so entirely on our ability to control inflation and to have stable prices and costs in this country, and increases in demand in other countries. (See p. 83.)

Mr. ULLMAN. Mr. Ambassador, the thing that concerns me is that general figures are confusing. Isn't it true that on one end of the spectrum we may have a more favorable situation and on another end we may have a very deteriorating situation, and these are all covered up by the general statistics that are presented?

Ambassador ROTH. You are absolutely right and this is why we have to look at the problem of each industry. This is why in terms of our own trade policy study, we are now having hearings lasting over 2 months to find out what are the problems of individual industries. This is what we have to look at.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Thank you, Mr. Chairman.

First, Secretary Smith, there are a few items that I would like to clarify in your statement. Would you supply for the record the latest table on the U.S. balance of international trade as compiled by your department.

I know you do compile and release this data periodically—the merchandise exports and imports, the balance on investment earnings, and travel, and similar information. When did you last compile this data? Was it for the full year 1967, or have you compiled this data for part of 1968?

Secretary SMITH. The first quarter is available.

Mr. BYRNES. You have the first quarter.

Secretary SMITH. Yes.

(The information was received by the committee:)

[U.S. Department of Commerce news release, Tuesday, May 14, 1968]

THE U.S. BALANCE OF PAYMENTS IN THE FIRST QUARTER 1968

Preliminary figures on international transactions of the United States in the first quarter of 1968 indicate that the balance of payments measured on the liquidity basis was adverse by about $600 million, after seasonal adjustment, the Department of Commerce announced today. This compares with a seasonally adjusted adverse balance of about $1,850 million in the fourth quarter of last year, and an adverse balance of close to $3.6 billion in 1967 as a whole.

The balance measured on the liquidity basis represents the changes in U.S. official reserve assets and in liquid liabilities to all foreign residents reported by U.S. official agencies and U.S. banks. Before seasonal adjustment this balance was adverse by $230 million, reflecting a decline of about $900 in official reserve assets and a decline of $670 in liquid liabilities to foreign residents.

The first quarter balance measured on the official reserve transactions basis was favorable by about $90 million, but after seasonal adjustment it was adverse by $520 million. In the fourth quarter of last year this balance after seasonal adjustment was adverse by about $1,220 million, and for 1967 it was adverse by about $3.4 billion. (The balance measured on this basis represent the changes in U.S. official reserve assets and in liquid and nonliquid liabilities to foreign monetary authorities reported by U.S. official agencies and U.S. banks.)

MAJOR DEVELOPMENTS

On the basis of data now available for the first quarter, the Office of Business Economics reported the following major developments in international transactions during this period.

A. Changes in official reserve assets and in liquid liabilities

(1) Official reserves declined about $900 million. This change consisted of a $1,360 million drop in official gold holdings, which was partly offset by a $400 million rise in holdings of convertible currencies and a $60 million increase in the U.S. gold tranche position in the IMF. The major part of the gold sales was made to meet the demand on principal foreign gold markets in order to help in preserving the officially established price of gold. The large losses of reserves of the United States and other countries participating in the London gold pool operations resulted in an agreement among the financial authorities of these countries on March 17, "that officially-held gold should be used only to effect transfers among monetary authorities", that it no longer be supplied to the London or any other gold market, and that the price of gold used in transfers among monetary authorities and in the valuation of official reserves remain unchanged, but that the price of gold traded by others be free to reflect market conditions.

(2) Liquid liabilities to foreign residents declined $670 million in first quarter. This decline was the net result of a $1,360 million drop in liquid dollar assets held in the U.S. by foreign official agencies, and a rise of about $690 million in those held by foreign banks and other private residents. After adjustment for seasonal variations, and for investments by foreign official agencies in long-term certificates of deposits and medium-term, nonconvertible, nonmarketable government securities and in government agency bonds, dollar liabilities to foreign official agencies declined less than $400 million. This was less than a third of the dollar amounts required to pay for the foreign gold purchases from the United States.

Liquid liabilities to foreign private residents, seasonally adjusted, continued to rise during the first quarter, but by a considerably smaller amount than either of the two preceding quarters. The very large increases in those quarters had reflected the exchange crisis of the British pound. In the first quarter of this year, large scale but short-lived speculation against the Canadian dollar may also have contributed to a shift of dollar liabilities from foreign official to foreign private accounts.

B. Major changes in other transactions

(1) Non-military merchandise exports, adjusted for seasonal variations, increased about $460 million from the last quarter of 1967, the first major rise in a year. Seasonally adjusted merchandise imports increased $680 million. This rise continued the sharp upward movement that was resumed in the previous quarter, following a period of about one year during which imports had declined slightly.

The balance on nonmilitary merchandise trade declined about $220 million from the previous quarter to only $100 million in the first quarter. This compares with a quarterly average nonmilitary merchandise balance of about 1 billion in the first three quarters of last year. Strikes affecting New York port operations and the production of copper, and hedging against shortages of steel resulting from an anticipated strike in the steel industry retarded the rise in exports and contributed to the increase in imports. These developments may have reduced the trade balance $450 million to $500 million.

(2) Net purchases of foreign securities amounted to about $400 million, after seasonal adjustment, as compared with about $315 million in the previous quarter. Purchases of newly-issued foreign securities rose about $35 million, and net purchases of outstanding securities, about $45 million. The latter includes $35 million of U.S. purchases of IBRD bonds sold by a foreign government to strengthen its foreign exchange reserves.

(3) U.S. banks reported net capital inflows of $360 million (after seasonal adjustment) resulting from a reduction in foreign assets held by themselves and for domestic customers. About half of the reduction was in outstanding long-term bank loans. In the previous quarter, banks reported net capital inflows of $85 million, and in 1967 as a whole, net capital outflows of about $470 million. The

large increase in capital inflows reported by banks may, in part, be attributed to the guidelines established early this year under the intensified program to improve the balance of payments.

(4) Net sales of U.S. securities to foreign residents amounted to about $675 million. This exceptionally large amount includes about $560 million of newly-issued bonds—most of which are convertible into stocks—sold by U.S. corporations to finance their foreign investments. (These amounts do not include securities sold abroad by foreign subsidiaries of U.S. corporations.) These funds are either transferred to foreign subsidiaries or, pending such transfers, invested in short-term assets abroad. The disposition of these funds is not yet known; it is included among the net debits on "other transactions" (shown on line 16 of the table).

The total amount of such new issues during the first quarter was far above the quarterly average of about $115 million in 1967. The large increase resulted from the new regulations issued on January 1 restricting capital outflows for direct investment, particularly to the developed countries in continental Western Europe.

Other transactions in U.S. securities include net sales by foreigners of U.S. bonds amounting to about $160 million (including $40 million sold by international agencies) and net purchases of U.S. stocks amounting to $275 million. (In addition, about $210 million of stocks newly issued by a U.S. subsidiary of a foreign corporation were purchased by the foreign parent company. This transaction is not included in the figure for security sales, but is considered a foreign direct investment in the U.S. Since other reports on such foreign direct investments are not yet available, the capital inflow of $210 million is still included among the "other transactions" (line 16 of the table).) Foreign purchases of outstanding U.S. stocks declined during the quarter from about $160 million in January to $80 million in February and about $35 million in March. Foreign purchases of U.S. stocks had risen sharply last year, from a quarterly average of $65 million in the first half of the year to $335 million in the second half.

(5) Net foreign investments—mainly by foreign official agencies and international organizations—in time deposits or certificates with an original maturity of one year or more, and in nonconvertible, nonmarketable medium-term government bonds amounted to over $310 million, nearly as much as in the previous quarter. These investments do not affect the balance measured on the official reserve transactions basis but improve the balance measured on the liquidity basis. Foreign purchases of such bonds include the quarterly receipt of $125 million from Germany to offset partly U.S. military expenditures in that country. The remainder of these investments frequently approaches in liquidity those classified as liquid liabilities.

(6) Other transactions for which data are not yet available, but for which the balance can be derived as a residual between receipts and payments on those transactions for which data are available, resulted in net payments (after seasonal adjustment) of about $1,900 million. This is less than the quarterly average of over $2.2 billion in 1967.

These transactions include military sales and expenditures, services transactions, investment incomes received and paid, private remittances, government pensions, government grants and capital transactions, capital transfers by U.S. corporations for direct and other investments (including the transfers of the $560 million borrowed abroad in the first quarter), foreign direct investments in the United States (including the $210 million mentioned above), changes in corporate liabilities to foreigners (other than those created through the new bond issues), and those transactions that are usually reflected in "Errors and Omissions".

SPECIAL TRANSACTIONS

Special financial transactions and large temporary transactions improved the balance measured on the liquidity basis by about $250 million, and the balance measured on the official reserve transactions basis by about $50 million.

Following is a summary of such transactions that improved the liquidity balance:

(1) The $360 million liquidation of bank-reported assets, which cannot be repeated over the long run.

(2) Receipts of about $210 million from the new stock issue by a U.S. subsidiary of a foreign corporation.

(3) Net receipts of $190 million from foreign official and international investments in medium-term time deposits and special government bonds (excluding the quarterly purchase by Germany).

In contrast, special adverse developments affecting the liquidity balance were:

(4) The $450 to $500 million reduction in the trade balance resulting from actual and anticipated strikes.

(5) The $35 million sale of IBRD bonds by a foreign government.

Data for selected items now available on a preliminary basis are shown in the attached table. Complete balance of payments tables and analyses of them will be published in the June *Survey of Current Business*. The magazine is available from Field Offices of the Department of Commerce, or from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, at an annual subscription price of $6.00, including weekly supplements; single copy, 45 cents.

SELECTED DATA ON FOREIGN TRANSACTIONS OF THE UNITED STATES IN THE 1st QUARTER OF 1968 AVAILABLE AS OF THE MIDDLE OF MAY 1968

[In millions of dollars]

Credits (+) and/or debits (−)	1965	1966	1967					1968, 1st quarter [1]	Adjusted for seasonal variations				
									1967 [2]				1968
			Year	1st quarter	2d quarter	3d quarter	4th quarter		1st quarter	2d quarter	3d quarter	4th quarter	1st quarter [1]
Merchandise, excluding military:													
1. Exports	26,244	29,176	30,468	7,589	7,911	7,146	7,822	7,900	7,660	7,703	7,627	7,478	7,933
2. Imports	−21,516	−25,541	−26,984	−6,646	−6,622	−6,430	−7,286	−7,742	−6,686	−6,605	−6,541	−7,152	−7,830
3. Foreign securities newly issued in the United States	−1,206	−1,210	−1,598	−352	−412	−473	−361	−366	−352	−373	−540	−333	−366
4. Redemptions	222	405	469	100	130	137	102	100	100	130	137	102	100
5. Other transactions in foreign securities, net purchases (−)	226	323	−123	−10	44	−73	−84	−130	−10	44	−73	−84	−130
Claims reported by U.S. banks, net increase (−):													
6. Long term	−232	337	285	153	188	−70	14	204	79	−198	−433	85	359
7. Short term	325	−84	−742	−18	−390	−77	−267	211					
8. U.S. Government cash receipts associated with military sales contracts	1,098	947	1,048	350	418	112	168	140	350	418	112	168	140
9. Nonscheduled repayments on U.S. Government credits	221	428	5		(3)	5	(3)	(3)		(3)	5	(3)	(3)
10. Transactions in U.S. securities other than Treasury issues, net sales (+)	−357	909	994	120	319	549	6	677	120	319	549	6	677
11. Long-term liabilities reported by U.S. banks, net increase	203	981	1,004	371	604	−160	189	52	371	604	−160	189	52
12. Transactions in nonmarketable, nonconvertible, medium-term, U.S. Government securities not associated with specific transactions, net sales (+)	−7	−49	470	(3)	(3)	335	135	260	(3)	(3)	335	135	260
13. Liquid liabilities to foreign accounts other than official agencies, and to international organizations other than the IMF,[4] net increase (+)	131	2,384	1,454	−709	96	1,304	763	688	−959	276	1,218	919	435

14. Liquid liabilities (including nonmarketable, convertible, medium-term U.S. Treasury securities) to foreign official agencies,[4] net increase (+)	−18	−1,595	2,063	−80	546	282	1,315	−1,359	1,492	277	−580	926	165
15. Decrease (+) or increase (−) in U.S. official reserve assets	1,222	568	52	1,027	−419	−375	−181	904					
(a) IMF gold trenche position [5]	−94	537	−94	−31	−10	−5	−48	−57					
(b) Convertible currencies	−349	−540	−1,024	1,007	−424	−462	−1,145	−401					
(c) Gold [5]	1,665	571	1,170	51	15	92	1,012	1,362					
16. Other transactions (derived as residual)	−6,556	−7,979	−8,855	−1,895	−2,413	−2,212	−2,335	−1,539	−2,165	−2,595	−1,656	−2,439	−1,795
MEMORANDUM ITEMS													
A. Balance on liquidity basis: Increase in U.S. official reserve assets and decrease in liquid liabilities to all foreigners (lines 13, 14, and 15 with sign reversed)	−1,335	−1,357	−3,569	−238	−223	−1,211	−1,897	−233	−533	−533	−638	−1,845	−600
B. Balance on basis of official reserve transactions: Increase in U.S. official reserve assets and decrease in liquid and certain nonliquid liabilities to foreign official agencies (lines 14 and 15, and parts of lines 11 and 12, and certain other nonliquid liabilities to foreign central banks and official agencies with sign reversed)	−1,304	220	−3,413	1,280	−689	−39	−1,405	92	−1,817	−832	456	−1,220	−520

[1] Preliminary.
[2] Revised.
[3] Less than $500,000.
[4] Liquid liabilities include foreign deposits in U.S. banks, private marketable debt obligations such as certificates of deposits and bankers acceptances, with an original maturity of less than 1 year, and marketable or convertible U.S. Government obligations. Government liabilities to foreign official organizations also include gold liabilities to the IMF. The distinction between liquid liabilities to foreign private and those to foreign official accounts is based on records of banks located in the United quarter of 1965.

Source: U.S. Department of Commerce, Office of Business Economics.

Ambassador ROTH. And tentative through April.

Mr. BYRNES. In your statement you noted that while exports have been growing imports have been growing at a faster rate so that we have almost reached a point of balance, have we not, at the present time?

Secretary SMITH. That is right.

Mr. BYRNES. I don't understand Ambassador Roth's statement that there is no trend. As I look at the figures on imports it would seem to me there is a very definite trend upward, just as there was a very definite trend up in exports over the last 10 years.

The difficulty is that imports are moving up faster than exports, but there is certainly a trend; isn't there?

Ambassador ROTH. Mr. Congressman, the figures on our merchandise balance going back to 1958 and coming up to 1967, starts 3.6, 1.2, 4.6, 5.5, 4.6, 5.3, 7, which was that good year, 5.3, 3.8, 4.1.

Mr. BYRNES. Are you giving the increases?

Ambassador ROTH. No; this is the net trade balance.

Mr. BYRNES. Oh, the net trade balance.

Ambassador ROTH. Finally, in 1967, 4.1.

Mr. BYRNES. But the trend is up, isn't it, on both imports and exports?

Ambassador ROTH. The trend in both imports and exports is up.

Mr. BYRNES. And the trend on imports is going up faster than on exports; is it not?

Ambassador ROTH. The trend on imports, as these figures show, goes up faster at a period when you have inflation in this country.

Mr. BYRNES. Well, we have had inflation every recent year. We have it now and the Secretary of the Treasury told us that it is going to continue in the next year, no matter what the Congress does. We were also told this by the Chairman of the Federal Reserve Board.

We can expect apparently even a greater increase in imports with this inflation, which we are told will continue, even with the tax increase and even with the cutback in expenditures. We are told that there is still going to be an unusually high degree of inflation.

Not long ago we had a $7 billion favorable merchandise balance and now we don't have any. It was this surplus that offset our Government expenditures abroad, providing a measure of equilibrium in our balance of payments.

Ambassador ROTH. I think the critical point is that we had that $7 billion plus in 1964 because we had done a good job in containing these pressures at home and markets were opening up abroad. The way our trade works, when there is inflation in this country, imports go up disproportionately; and, when the reverse happens, they go down disproportionately.

It is quite true that if we continue along an inflationary path this year our trade account will suffer no matter what we do.

Mr. BYRNES. All right. Now let me refer to the Department of Commerce figures, the Overseas Business Report of May 1968. On the front cover is the average annual rate of change in U.S. trade from 1961 to 1967.

I can't give you the precise figure from this chart, but it shows that the average annual rate of change in exports was up about 7 percent. The chart also shows that the average annual rate of change in imports is above 10 percent.

Is this an accurate chart, Mr. Secretary? I assume it is.

Secretary SMITH. Yes, sir.

Mr. BYRNES. It seems to me that Ambassador Roth and your people should reconcile your views. There is certainly an inconsistency in this chart and Ambassador Roth's generalization that exports and imports have been increasing at about the same rate, Mr. Secretary.

Ambassador ROTH. No; that was not my intent to say——

Mr. BYRNES. Will you accept the conclusion, then that imports have been increasing at an annual rate of change exceeding the average annual rate of change of exports?

Ambassador ROTH. Over a period of 10 years?

Mr. BYRNES. Well, from 1961 to 1967, which happens to be the chart that I have.

Ambassador ROTH. It is true this has happened over that period.

Mr. BYRNES. All right. Mr. Secretary, your statement calls attention to the growing percentage of our export trade composed of capital goods exports. It appears that what we seem to be developing is an exporter of capital goods and an importer of consumer goods. I find this disturbing, and I wonder if you agree that this is disturbing. We are not importing very much by way of capital goods; are we?

Secretary SMITH. Yes; a substantial amount. We have the figures on it.

Mr. BYRNES. I can't hear you, Mr. Secretary.

Secretary SMITH. Yes; we have substantial imports in that area and would be glad to give you the figures on it. We will give you a chart on both exports and imports in the capital goods area. (See p. 94.)

Mr. BYRNES. Mr. Secretary, on page 2 of your statement, you made the point that the growth in the amount of our exports is attributable to capital goods. It appears from the figures you cited that capital goods now are about a third of our exports, while in 1960 they were about a quarter of our exports. We are moving in the direction of greater and greater emphasis on capital goods exports; aren't we?

Secretary SMITH. No doubt about it.

Mr. BYRNES. My point is what happens when a country on a long-range basis becomes dependent on consumer goods in terms of importing, and relies in its exports on capital goods?

Can we maintain that posture in reference to capital goods?

Secretary SMITH. No; I don't think so.

Mr. BYRNES. There is no question we will have to export consumer goods.

Secretary SMITH. I don't think it necessarily follows always; but I think we should make a great effort to be more competitive in the consumer goods field.

Mr. BYRNES. But the point is, we are not in the export area. Isn't that the point at which we are having a deterioration or a problem internally? Aren't industries that are feeling the pinch of imports basically the consumer industries?

Secretary SMITH. That is not a substantial part of the total figures but I think your statement is correct.

Mr. BYRNES. But you don't think this is anything to be concerned about?

Secretary SMITH. Wait just a minute. Let me give you the figures on it and then we will have something to talk about.

Mr. BYRNES. That is what I would like to get.

Mr. MCQUADE. I will see if I can supply those. Capital goods exports other than automobiles in 1967 were $9.9 billion and capital goods imports for the same period were $2.4 billion.

For consumer goods, the exports in 1967 were $2.1 billion and the imports were $4.2 billion. That is consumer goods, nonfood, other than automotive, in both cases.

Mr. BYRNES. In other words, you don't include automobiles as consumer goods?

Mr. MCQUADE. That is just categorized separately.

Mr. BYRNES. You like to have that separately. If you include that I assume you would have a little different picture. Most of us consider automobiles a consumer item.

Ambassador ROTH. It is a consumer item.

Mr. BYRNES. I thought he gave the figures exclusive of automobiles.

Mr. MCQUADE. I left out automobiles in both instances, but I would be happy to give you the numbers.

Mr. BYRNES. That is what I am suggesting. What would the figures be with autos included, Ambassador Roth? I think they are consumer items. Will you try and provide the committee with a picture of what the trend has been in capital goods and consumer goods, both in exports and imports, and include autos in consumer goods. Then we can see the trends.

I don't know why you leave autos out. Why are they left out?

Mr. MCQUADE. It is just interesting to be able to look at automobiles separately, but I think you can add them in. You can make one chart. You make another. We have broken them out so it would be more illuminating as to what happened to automobiles separately.

Mr. BYRNES. I would like to know what happens to automobiles too, but I would like an overall picture of capital goods versus consumer goods. Anything which should go into consumer goods, put it in. Also include anything that legitimately belongs in capital goods. Let's not have a lot of separate items out on the side because they are interesting to look at by themselves.

Ambassador ROTH. Congressman Byrnes, just for the present discussion let me give you very briefly the trend of some of the major categories in our principal exports, 1960–67.

Nonagricultural products go from $15 to $24 billion. This breaks down into machinery, which is engines, agricultural machinery, office machines, et cetera, from $4.5 to $8.3 billion; transport equipment, which is automobiles, trucks, civilian aircraft, aircraft parts, from $2.5 to $4.3 billion; chemicals, from $1.8 to $2.8 billion; and other nonagricultural products from——

Mr. BYRNES. We can get those figures, but what I want is an overall picture. I don't know why you can't chart an overall picture to show where the trend lines are.

Secretary SMITH. We will draw you up a chart and have it for you tomorrow for a 10-year period.

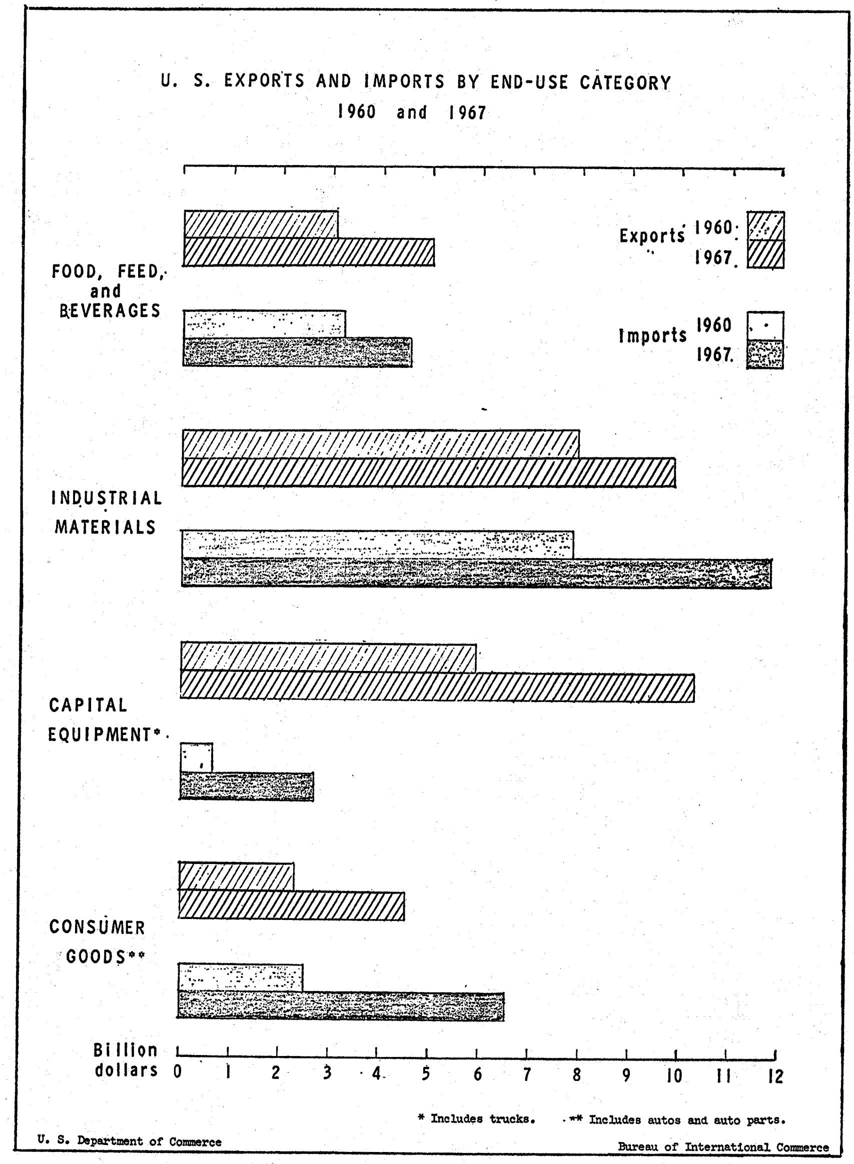
(The following information was received by the committee:)

U.S. TRADE BY END-USE CATEGORIES, 1960–67

[In millions of dollars]

	Foods, feeds, and beverages		Industrial materials		Capital equipment [1]		Comsumer goods [2]	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1960	3,170	3,286	7,899	7,833	5,902	592	2,271	2,504
1961	3,418	3,331	7,668	7,669	6,231	706	2,308	2,259
1962	3,828	3,573	7,118	8,500	6,708	774	2,491	2,781
1963	4,882	3,753	7,782	8,807	6,914	846	2,716	2,952
1964	4,849	3,915	9,044	9,498	7,820	1,063	3,122	3,437
1965	4,928	3,946	8,866	10,961	8,464	1,502	3,304	4,200
1966	5,488	4,499	9,503	12,086	9,259	2,310	4,021	5,648
1967	5,002	4,586	9,876	11,780	10,322	2,677	4,481	6,553

[1] Includes trucks and buses.
[2] Includes autos and parts.


U. S. EXPORTS AND IMPORTS BY END-USE CATEGORY
1960 and 1967
Exports 1960
1967
Imports 1960
1967
FOOD, FEED, and BEVERAGES
INDUSTRIAL MATERIALS
CAPITAL EQUIPMENT*
CONSUMER GOODS**
Billion dollars
0 1 2 3 4 5 6 7 8 9 10 11 12
* Includes trucks.
** Includes autos and auto parts.
U. S. Department of Commerce
Bureau of International Commerce

TRENDS IN U.S. FOREIGN TRADE, 1960–67 AND JANUARY–APRIL 1968

1960–67

U.S. trade has expanded strongly in both directions during the 1960's. Rising at an average annual rate of 6.7%, exports, excluding military grant-aid, climbed from $19.6 billion[1] in 1960 to $30.9 billion in 1967. Our purchases from abroad increased by roughly the same amount during this period, from $15.0 billion to $26.8 billion. This represented an average growth rate of 8.6% a year.

The gross merchandise trade balance totaled $4.1 billion in 1967, about half a billion dollars less than in 1960. In the intervening years, the surplus fluctuated widely, reaching a high of $7.0 billion in 1964 and dropping to a low of $3.8 billion in 1966. During the eight-year period between 1960 and 1967, the trade balance averaged $5 billion.

The strong increase in U.S. exports in the sixties was characterized by sizable shifts in commodity composition. Solid gains in sales of machinery and transport equipment, products which have a high technological content, helped boost finished manufactures to 61% of the total in 1967 from 54% in 1960. In the last three years, rapidly growing shipments of automotive products to Canada under the duty-free provisions of the 1965 U.S.–Canadian Automotive Agreement have contributed significantly to the expansion.

As the share of finished manufactures in our exports increased, there was a corresponding decline in the proportion of total U.S. shipments accounted for by semimanufactures and crude materials. Both, however, were higher in value in 1967 than in 1960. In the case of semimanufactures, the advance was slowed by reduced shipments of steel and by a large dip in copper sales in 1967 as the long strike reduced quantities available for export. Exports of crude materials were retarded by sharply lower deliveries of cotton. The share of foodstuffs remained at 14% of the export total.

Government assistance programs have played a relatively minor role in the $11 billion growth in our exports from 1960 to 1967. Shipments of agricultural products under Government programs, largely wheat and other grains to various developing countries, amounted to $1.5 billion in 1967. This level of assistance was only 5% higher than in 1960. In that year, these programs accounted for 30% of our domestic agricultural exports; by 1967, their share dropped to 24% as commercial exports expanded at a considerably faster rate than Government-financed shipments.

Disbursements for merchandise exports under AID programs last year totaled $1.3 billion, a sharp rise from the $0.4 billion of goods sent abroad in 1960. This expansion, however, primarily represented the tying of our economic assistance to purchases in the United States after 1960. Around three-fifths of AID-financed shipments in 1967 involved machinery, chemicals, and transport equipment to countries in Asia and Latin America.

(Estimated exports under these programs continued in the first quarter at about the same $2.8 billion rate as last year.)

Exports to both the developed and developing countries rose strongly in 1960–67. Increasing by $8.3 billion over the eight-year period, shipments to the former group accounted for 68% of the export total last year, up from 65% in 1960. About three-fourths of the gain represented greater sales to Canada and Western Europe. Shipments to the developing areas expanded by $3.0 billion, or by nearly a half. Increasing relatively rapidly were shipments to East and South Asia, the Near East, and Africa, while those to Latin America, our latest market among the developing areas, lagged.

Stimulated by the expansion of the domestic economy in recent years, U.S. imports have also increased rapidly. The change in import composition between 1960 and 1967 was even more marked than that in exports. Although imports of all major types of goods purchased abroad expanded, the faster growth in capital equipment and consumer goods increased the share of these products in our total imports. Arrivals of capital equipment, mostly machinery, accounted for 10% of our imports in 1967, more than twice the ratio in 1960. These imports increased particularly rapidly in the last few years as the pressure of demand strained domestic capacity and stretched the delivery schedules of U.S. manufacturers.

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[1] The statistics used here are official U.S. trade statistics as published by the Bureau of the Census. They differ somewhat from the adjusted figures presented in balance of payments statements. The most important adjustments in the payments figures are the exclusion of shipments and receipts of military goods and the inclusion of silver.

Buoyant demand in this country for cars and other foreign consumer products such as clothing, radios, and motorcycles raised the share of these imports from 17% to 24%. Arrivals of automobiles and parts from U.S. subsidiaries in Canada advanced rapidly in recent years, climbing from practically nothing in 1960 to $1.6 billion in 1967.

Industrial materials remained overwhelmingly our major import, but receded from 52% of the import total to only 44%. To a large extent, the decline in the share of industrial materials reflected advances in developing substitutes, improved uses of basic materials, and releases from national stockpiles. Purchases of foreign food and beverages also slipped in relative importance, to 17%.

Purchases from the developed countries more than doubled in these years, accounting for more than four-fifths of the $11.8 billion import rise. The sharpest gain was in arrivals from Japan which climbed from $1.1 billion to nearly $3.0 billion from 1960 to 1967. Also expanding rapidly were purchases from Canada, which in 1967 totaled $7 billion and from Western Europe, which reached $8 billion. As a result of the steep rise in purchases from industrial suppliers abroad, their share of our total imports climbed from 60% to 71%.

Reflecting the shift in the composition of our imports to a higher proportion of finshed manufacturers, arrivals from the developing countries expanded relatively slowly. The increase of $1.7 billion, or 29%, represented less than a seventh of the overall import growth. Goods arriving from developing Africa, East and South Asia, and the Caribbean countries were the most expansive, while arrivals from the 19 American Republics, our major source of developing area imports, grew only moderately.

JANUARY–APRIL 1968

In the first four months of 1968, our trade advanced to new records. Exports were valued at a seasonally adjusted annual rate of $32.7 billion, 6% above the 1967 total. Stimulated by rising business activity and special strike-related purchases, imports rose 17%, to $31.4 billion. Because of the much faster growth in imports than exports, the gross merchandise trade balance dropped to an annual rate of $1.3 billion from $2.3 billion in the fourth quarter 1967 and an average of $4.7 billion in January–September of that year.

Greater exports of transport equipment accounted for much of the $473 million, or 4.5%, advance in January–April 1968 over the same period a year ago. Shipments of automobiles, trucks, and parts to Canada and of civilian aircraft were the major gainers. Chemical exports also recorded a significant increase in January–April as shipments of fertilizers, plastic materials, and organic and inorganic compounds expanded rapidly. Machinery exports showed only a slight increase, while deliveries of steel, aluminum, and copper fell substantially below levels in the corresponding period of 1967. The drop in copper shipments was related to the strike which was settled in April. Among agricultural commodities, exports of wheat, rice and corn were especially expansive but shipments of grain sorghum and oils and fats fell.

A large part of the $1.6 billion, or 17.5%, increase in U.S. imports in January–April 1968 as compared with the first four months of last year was in copper, steel, and automotive vehicles and parts—both from U.S. subsidiaries in Canada and our overseas suppliers. The advance in copper purchases reflected the import stimulating effects of the strike while the increase in steel arrivals was mostly due to stockbuilding in anticipation of an industry-wide strike later this year.

Significant increases were also recorded in the first four months in imports of capital equipment and other consumer goods. Purchases of coffee rose strongly, reflecting inventory building and receipts under larger import quotas for the 1968 marketing year.

MAJOR COMMODITY INCREASES IN U.S. IMPORTS FROM 1960 TO 1967

[In millions of dollars]

	1960	1967	Increase
Imports, total	15,019	26,816	+11,797
Food, feed, and beverages, total	3,286	4,586	+1,300
Meat and preparations	314	645	+331
Alcoholic beverages	273	528	+255
Fish	308	522	+214
Fruits and nuts	218	360	+142
Vegetables	96	195	+99
Other food, feed, and beverages	2,077	2,336	+259
Industrial materials, total	7,833	11,780	+3,947
Iron and steel-mill products	431	1,289	+858
Nonferrous base metals	775	1,477	+702
Petroleum and products	1,537	2,088	+551
Ores and metal scrap	723	974	+251
Textiles, other than clothing [1]	562	812	+250
Organic and inorganic chemicals	194	435	+241
Finished metal shapes	98	319	+221
Newsprint	688	864	+176
Other industrial materials	2,825	3,522	+697
Capital equipment, total	592	2,677	+2,085
Machinery	508	2,253	+1,745
Trucks and buses	30	295	+265
Civilian aircraft and parts	54	129	+75
Consumer goods, total	2,504	6,553	+4,049
Automobiles and parts, including engines	603	2,332	+1,729
Clothing	304	649	+345
Radios, television receiving sets, and radio-phonographs	91	369	+278
Gem diamonds	166	389	+223
Musical instruments, sound recorders, and parts	47	225	+178
Toys, games, and sporting goods	84	213	+129
Footwear	148	263	+115
Other consumer goods	1,061	2,113	+1,052
Military aircraft, U.S. goods, returned, and other transactions, total	804	1,220	+416

[1] Includes rugs and textile consumer items other than clothing.

MAJOR COMMODITY INCREASES IN U.S. DOMESTIC EXPORTS FROM 1960 TO 1967

[Millions of dollars]

	1960	1967	Increase
Domestic exports, total	20,383	31,147	+10,764
Food, feed, and beverages, total	3,170	5,002	+1,832
Soybeans	336	772	+436
Corn	285	704	+419
Wheat	857	1,120	+263
Animal feed	87	332	+245
Grain sorghums	108	299	+191
Rice	151	319	+168
All other food, feed, and beverages	1,346	1,456	+110
Industrial materials, total	7,899	9,876	+1,977
Organic and inorganic chemicals	470	1,047	+577
Paper and manufactures	255	466	+211
Wood in the rough	38	202	+164
Manufactured fertilizers	72	231	+159
Plastic materials and resins	315	473	+158
Coal	354	482	+128
Unmanufactured tobacco	379	498	+119
All other industrial materials	6,016	6,477	+461
Capital equipment, total	5,902	10,322	+4,420
Nonelectric machinery,[1] excluding auto engines	3,371	5,955	+2,584
Electric machinery,[1] excluding domestic household equipment	978	1,976	+998
Aircraft and parts	1,024	1,518	+494
Aircraft flight and other nonelectrical measuring and controlling instruments	123	364	+241
All other capital equipment	406	509	+103
Consumer goods, total	2,271	4,481	+2,210
Automobiles, engines, and parts	1,281	2,596	+1,315
Printed matter	137	279	+142
All other consumer goods	853	1,606	+753
Military goods and other transactions	1,141	1,466	+325

[1] Includes some consumer machines and appliances.

Mr. BYRNES. Fine. Thank you very much, Mr. Secretary.

While I am on this, Secretary Wirtz, can we make any judgement as to whether workers in the capital goods industry, tend to be more highly skilled than workers in the consumer goods industries?

Secretary WIRTZ. Yes, we have that.

Mr. BRYNES. What is the generalization?

Secretary WIRTZ. The generalization is that those industries which are most affected by imports today coincide to a considerable extent with those industries in which there is the largest number of low skilled and unskilled workers.

That is not true across the board but it is true, characteristically, of textiles. That is the general picture. We can give you that on an industry basis, but that is what it shows in general.

Mr. BYRNES. Can you generalize and say that for the most part the consumer goods industry utilizes a lower degree of skill as far as the overall workers are concerned than the capital goods industry?

Secretary WIRTZ. Not when you put in automobiles.

Mr. BYRNES. Not when you put in automobiles.

Secretary WIRTZ. Leaving those out, the answer would be substantially yes, but it is a pretty broad generalization and the automobile picture would affect that very markedly.

Mr. BYRNES. Well, I know we keep getting back to the automobile being a separate animal. Of course we did treat it as a separate animal, didn't we, when we considered the Canadian-American auto agreement.

Secretary WIRTZ. I don't mean that point. I mean that the generalization would be true if you excluded automobiles. It would be much less true if you include automobiles.

Mr. BYRNES. When we talk about the need to find 2 million additional jobs, we know that we are trying to find these jobs for people who are basically very short of skills now. We want programs to upgrade their skills to a degree in order to find a job for them.

Isn't that one of the basic economic objectives we all must have?

Secretary WIRTZ. It sure is.

Mr. BYRNES. If that is the case, don't we have to be concerned when we see a trade policy that has an adverse impact on these kinds of jobs?

Secretary WIRTZ. Yes, we do and especially when we come to the discussion of textiles. This is always in mind.

Mr. BYRNES. I was told, for instance, by a shoe manufacturer that they are in trouble from imports. His point was that he could take people with little or no training and train them.

Some of them were farmers in Wisconsin. I visited one of the plants and there were men and women that came off the farms. Here is an industry that is able to train unskilled people rather rapidly and give them a job.

Yet that is also the kind of an industry that suffers the impact of this growing increase in imports.

Secretary WIRTZ. Let me just say this: That what we are talking about here is dead clear as far as the textile industry is concerned. It gets less clear from there on.

Now, we have a large problem as far as steel is concerned and it gets less clear there because the steel industry would be over on the automobile side as far as both wage rates and the amount of skill involved are concerned.

I believe the generalization is relevant but is dangerous. I should rather leave it on the basis of the fact that it seems to me a considered policy in this area necessarily takes that element into account and does look with a somewhat different view on those industries in which there is a concentration of low paid, unskilled work. I agree with you that in those industries there is an additional reason for being very careful about disrupting the domestic market.

Ambassador ROTH. Mr. Congressman, I just want to add to that because of this concern that Secretary Wirtz has indicated.

In preparing for the Kennedy round, for instance, and in looking at possible exceptions to the 50-percent rule, we took particular care to look at employment problems. But it is true, however, that you have to look at specific cases.

In the textile industry, for instance, you look particularly at the apparel group, while in the man-made sector you often find very highly skilled labor. The question of shoes, as you know, is being studied by the Tariff Commission. It is very complicated.

One major problem there is a few large domestic shoe companies dominating the industry and what is happening in terms of the technology of the industry. So all I am saying is that an overall generalization is perhaps difficult.

Mr. BYRNES. Has either Commerce, Labor, or Ambassador Roth's office made any study of the relationship of the export and import growth as it affects specific types of items in an industry?

For example, take shoes, or if it is possible to do so, breakdown the products within the textile industry. Take the computer industry as an export industry. In other words, consider the items within an industry.

Which industries have increases in exports but also have a tremendous increase in imports so that overall they are falling behind in terms of their basic position.

Ambassador ROTH. This is the kind of analysis we tried to do over several years and through public hearings during the 4 years of preparation for the Kennedy round.

Mr. BYRNES. Well, that was before 1962.

Ambassador ROTH. That is right. Between 1964 and 1967.

Mr. BYRNES. We have had a shift since 1962 that has been pretty drastic.

Ambassador ROTH. Absolutely and that is why we are having our current hearings in order to update this. In addition, in certain areas that are so complex, in shoes, in textiles, the Tariff Commission has made a study. The shoe study they are still involved in.

Mr. BYRNES. But you haven't used a computer to try to find out the details and determine where we are going?

Ambassador ROTH. Well, we do it on a continuing basis.

Mr. BYRNES. Then you have the information so you can tell me what industries are predominantly growing on an export basis, and what industries, for instance, have a growth in exports but a greater growth in imports?

You can give us a breakdown on those?

Ambassador ROTH. I think we could on a selective basis.

(The following table was received by the committee:)

U.S. IMPORTS AND EXPORTS BY MAJOR INDUSTRIES

There follow (1) a table (Table 1) of U.S. exports and imports of major manufactured products (1960–1967), and (2) three tables concerning imports and exports of textiles (Table 2) and employment in the textile industry (Tables 3 and 4).

During the Kennedy Round much detailed work was done concerning the effect of possible tariff reductions on particular industries. This included, of course, analyses of employment effects.

The purpose of this Office's proposed study of the impact of imports on U.S. employment would be to place this kind of intensive analysis on *a continuing basis*. We believe this is an important tool in the formulation of trade policy. Unfortunately, the House Appropriations Committee recently deleted the funds necessary for this work in FY 1969.

Meanwhile, there are set out below three tables which illustrate some of the sort of detailed information on imports, exports, and employment that it is possible to assemble. These tables were a part of the Tariff Commission's study on textiles, but similar information would also be compiled by this Office under the proposed impact study and on a more detailed, product or product group basis. Indeed, it would also be possible to go considerably further in such studies and to analyze the inter-relationships among imports, exports, and employment.

TABLE 1. U.S. EXPORTS AND IMPORTS OF MAJOR MANUFACTURED PRODUCTS, 1960–67

[In millions of dollars]

Commodity	1960	1961	1962	1963	1964	1965	1966	1967
INDUSTRIAL MATERIALS								
Organic and inorganic chemicals:								
Exports	470	593	615	722	889	927	973	1,047
Imports	194	180	198	217	273	318	429	435
Plastic materials and resins:								
Exports	315	308	316	323	402	425	473	473
Imports	11	8	13	16	31	41	60	60
Manufactured fertilizers:								
Exports	72	79	99	92	137	153	221	231
Imports	77	81	88	90	105	112	131	142
Iron and steel mill products:								
Exports	635	454	455	505	664	607	537	539
Imports	431	346	457	598	715	1,140	1,183	1,289
Copper metal:								
Exports	291	271	222	208	228	293	307	209
Imports	353	280	297	331	400	425	611	656
Aluminum:								
Exports	154	93	115	126	159	159	178	197
Imports	107	131	174	195	200	264	301	244
Fabrics, yarns, and made up articles of cotton, wool, and manmade fibers:[1]								
Exports	(2)	(2)	358	295	350	317	339	336
Imports	(2)	(2)	357	346	343	447	543	466
Paper and manufactures:								
Exports	255	280	286	312	374	389	443	466
Imports	756	752	774	765	827	870	985	962
Rubber manufactures:								
Exports	152	140	146	148	161	162	168	156
Imports	44	46	56	52	42	47	64	92
CAPITAL EQUIPMENT								
Aircraft and parts:								
Exports	1,024	903	980	817	874	1,137	1,097	1,518
Imports	54	137	123	91	83	140	273	248
Trucks, including chassis:								
Exports	339	282	227	229	290	279	301	338
Imports	29	13	16	18	10	22	162	231
Engines, turbines, and parts:[1]								
Exports	432	492	556	560	578	756	855	950
Imports	24	35	28	49	136	195	331	383
Electric power machinery and switchgear:								
Exports	250	255	264	326	356	472	488	510
Imports	23	28	25	22	41	67	105	133
Agricultura, tractors, machinery, and parts:								
Exports	250	252	266	320	418	434	448	451
Imports	[3] 135	[3] 115	[3] 152	[3] 172	182	224	296	317
Tractors and parts other than agricultural:								
Exports	314	290	292	324	408	431	412	392
Imports	(4)	(4)	(4)	(4)	13	25	29	24
Materials handling equipment:								
Exports	193	212	218	262	298	397	432	446
Imports	4	6	16	11	18	24	35	40
Electronic computers and parts:								
Exports	48	110	136	187	218	223	295	432
Imports	4	5	8	10	4	4	15	20
Office machines other than computers:[1]								
Exports	160	200	188	175	216	248	262	275
Imports	64	70	77	88	100	132	176	205
Electrical measuring and controlling instruments:								
Exports	141	172	187	225	240	197	240	290
Imports	9	10	13	16	18	24	37	45
Aircraft flight instruments, other measuring and controlling instruments and parts:								
Exports	123	153	192	192	208	288	332	364
Imports	14	15	18	22	37	43	49	60
Construction, excavating, and maintenance equipment:								
Exports	270	276	311	322	383	323	319	349
Imports	2	2	4	6	14	12	15	21
Metalworking machinery:								
Exports	293	391	435	347	408	332	338	339
Imports	37	34	41	48	40	63	135	203
Air conditioning and refrigeration equipment:[1]								
Exports	135	138	144	160	193	210	251	288
Imports	(4)	(4)	(4)	(4)	(5)	3	4	4
Electronic components:[1]								
Exports	80	69	86	90	109	140	202	229
Imports	13	18	27	31	34	63	102	101

See footnotes at end of tables: p. 102.

TABLE 1. U.S. EXPORTS AND IMPORTS OF MAJOR MANUFACTURED PRODUCTS, 1960-67—Continued

[In millions of dollars]

Commodity	1960	1961	1962	1963	1964	1965	1966	1967
CAPITAL EQUIPMENT—Continued								
Pumping equipment:								
Exports	81	85	94	103	110	143	170	185
Imports	(4)	3	4	4	7	12	18	20
Mining and well drilling machinery:								
Exports	131	113	121	113	129	141	145	165
Imports	5	3	4	5	14	12	15	21
Photographic and motion picture equipment and supplies:[1]								
Exports	109	122	129	154	184	233	290	328
Imports	31	65	82	82	94	95	111	120
CONSUMER GOODS								
Automobiles, new:								
Exports	237	228	265	286	347	393	564	812
Imports	514	307	422	449	579	658	1,236	1,695
Automotive parts, excluding engines:								
Exports	524	529	636	726	848	875	1,023	1,110
Imports	54	48	66	78	70	99	199	263
TV's, radios, and radio-phonographs:								
Exports	20	24	34	29	42	46	52	50
Imports	76	95	110	120	151	208	300	365
Footwear:								
Exports	10	10	9	10	10	9	10	9
Imports	148	123	133	124	140	160	190	263
Medicinal and pharmaceutical products:								
Exports	238	234	240	238	235	256	269	288
Imports	47	56	56	50	41	58	75	72
Apparel:								
Exports	(2)	(2)	80	84	92	103	114	119
Imports	(2)	(2)	292	332	374	458	518	561

[1] Includes some consumer goods.
[2] Data comparable with later years are not available.
[3] Includes small amounts of nonagricultural tractors.
[4] Data were not separately reported in these years.
[5] Less than $500,000.

TABLE 2.—MANUFACTURES OF COTTON, WOOL, AND MANMADE FIBERS: U.S. IMPORTS FOR CONSUMPTION AND EXPORTS OF DOMESTIC MERCHANDISE OF YARN, FABRIC, APPAREL, AND OTHER MANUFACTURED GOODS,[1] 1961–66

[Quantity in thousands of pounds]

Textile	Yarn		Fabric		Apparel		Other manufactured goods		Total	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1961										
Cotton	16,042	11,596	80,898	170,551	60,267	14,455	31,689	42,579	188,896	239,181
Wool	[2] 5,429	[2] 232	19,207	563	13,717	485	31,916	1,323	70,269	2,603
Manmade fiber	[2] 5,720	[2] 87,152	8,212	31,119	5,033	7,572	9,449	19,263	28,414	145,106
Total	27,191	98,980	108,317	202,233	79,017	22,512	73,054	63,165	287,579	386,890
1962										
Cotton	32,818	11,125	145,177	157,432	91,823	13,505	40,030	38,245	309,848	220,307
Wool	[2] 8,892	[2] 221	22,108	654	22,790	399	35,180	1,360	88,970	2,634
Manmade fiber	[2] 7,880	[2] 113,696	12,321	39,352	10,443	6,299	6,609	22,844	37,253	182,191
Total	49,590	125,042	179,606	197,438	125,056	20,203	81,819	62,449	436,071	405,132
1963										
Cotton	26,576	9,891	148,360	142,265	94,204	14,354	35,172	41,297	304,312	207,807
Wool	[2] 9,802	[2] 229	22,266	701	28,039	411	27,803	1,337	87,910	2,678
Manmade fiber	[2] 7,451	[2] 101,462	14,265	44,130	12,847	6,618	7,715	24,509	42,278	176,719
Total	43,829	111,582	184,891	187,096	135,090	21,383	70,690	67,143	434,500	387,204
1964										
Cotton	18,837	11,535	137,173	142,574	107,578	17,432	36,577	41,694	300,165	213,235
Wool	[2] 7,808	[2] 228	19,804	748	28,421	591	29,131	1,780	85,164	3,347
Manmade fiber	[2] 9,129	[2] 120,265	15,668	48,291	21,842	7,222	11,319	29,330	57,958	205,108
Total	35,774	132,028	172,645	191,613	157,841	25,245	77,027	72,804	443,287	421,690
1965										
Cotton	24,738	10,173	178,287	110,301	119,891	18,035	37,684	35,299	360,600	173,808
Wool	[2] 10,890	[2] 185	25,702	804	35,443	861	23,933	4,493	95,968	6,343
Manmade fiber	[2] 15,351	[2] 102,125	26,068	62,739	30,798	7,475	20,347	33,170	92,564	[3] 205,509
Total	50,979	112,483	230,057	173,844	186,132	26,371	8,1964	72,962	549,132	385,660
1966 [4]										
Cotton	102,265	9,869	225,002	122,858	123,089	20,411	51,235	36,476	501,591	189,614
Mool	[2] 12,481	[2] 273	24,834	586	33,019	948	17,796	4,028	88,130	5,835
Wanmade fiber	[2] 19,843	[2] 71,868	43,393	65,885	37,594	7,629	33,868	38,245	134,698	[3] 183,627
Total	134,589	82,010	293,229	189,329	193,702	28,988	102,899	78,749	724,419	379,076

[1] Estimated raw fiber equivalent of cotton and manmade fiber products, raw wool content of wool products. Does not include tops, noils, and wastes.
[2] Actual weight.
[3] Under revision. Includes unknown quantities of nontextile manmade fibers.
[4] Preliminary.

Source: U.S. Department of Agriculture, Wool Situation and Cotton Situation; and official statistics of the U.S. Department of Commerce.

TABLE 3—TOTAL EMPLOYMENT IN ALL MANUFACTURING, AND IN THE PRODUCTION OF NONDURABLE GOODS TEXTILE MILL PRODUCTS, AND APPAREL AND RELATED PRODUCTS, 1957–67 AND, BY MONTHS, JANUARY 1966–MAY 1968

[In thousands]

Period	All manufacturing	Nondurable goods	Textiles		
			Total	Textile mill products	Apparel and related products
1957	17,174	7,319	2,191	981	1,210
1958	15,945	7,116	2,091	919	1,172
1959	16,675	7,303	2,172	946	1,226
1960	16,796	7,336	2,158	924	1,233
1961	16,326	7,256	2,108	893	1,215
1962	16,853	7,373	2,166	902	1,264
1963	16,995	7,380	2,168	885	1,283
1964	17,274	7,458	2,195	892	1,303
1965	18,062	7,656	2,280	926	1,354
1966	19,186	7,930	2,360	962	1,399
1967	19,339	8,012	2,342	952	1,391
1966:[1]					
January	18,646	7,787	2,308	951	1,357
February	18,834	7,845	2,345	955	1,390
March	18,940	7,869	2,351	958	1,393
April	19,037	7,897	2,358	959	1,399
May	19,121	7,915	2,377	963	1,414
June	19,268	7,975	2,387	967	1,420
July	19,242	7,952	2,357	964	1,393
August	19,371	7,976	2,367	968	1,399
September	19,337	7,936	2,360	964	1,396
October	19,422	7,965	2,367	963	1,404
November	19,498	8,013	2,370	962	1,408
December	19,526	8,030	2,373	962	1,411
1967:[1]					
January	19,558	8,051	2,377	963	1,414
Fevruary	19,507	8,025	2,355	954	1,401
March	19,445	8,011	2,336	952	1,384
April	19,331	8,009	2,335	945	1,390
May	19,238	7,955	2,336	941	1,395
June	19,296	8,008	2,354	949	1,405
July	19,163	7,951	2,314	941	1,373
August	19,318	7,967	2,327	946	1,381
September	19,142	7,993	2,327	950	1,377
October	19,169	8,028	2,336	954	1,384
November	19,422	8,058	2,346	957	1,389
December	19,491	8,092	2,361	964	1,397
1968:[1]					
January	19,511	8,067	2,351	966	1,385
February	19,524	8,106	2,368	976	1,383
March	19,607	8,112	2,363	979	1,408
April	19,670	8,126	2,376	979	1,417
May	19,665	8,127	2,401	982	1,419

[1] Seasonally adjusted.

TABLE 4.—EMPLOYMENT: TEXTILES, APPARELS, AND MANMADE FIBERS, 1960–67 AND MAY 1968

[In thousands]

Year	Textiles	Apparel	Manmade fibers
1960	924	1,233	64
1961	893	1,215	71
1962	902	1,264	77
1963	885	1,283	82
1964	892	1,303	84
1965	926	1,354	97
1966	962	1,399	103
1967	952	1,391	99
May 1968	982	1,419	105

[1] March 1968.

Source: Bureau of Labor Statistics.

Mr. BYRNES. In each of these industries do you have their employment in relation to total employment so that we can see where our employment picture is going, Mr. Secretary? For instance, we may be exporting items that have a lower labor content but a higher expertise component and we may be importing items of a high labor content. It would seem to me that this is a matter that we should know as we look at this whole picture?

Ambassador ROTH. Mr. Congressman, we do have a great deal of this information. The export and import data is not always comparable but we can submit it. (See p. 100.)

May I say on the effect of imports on employment, our office had been asked to undertake such a study next fiscal year. The House Appropriations Committee, however, recently took this out of our appropriation.

Mr. BYRNES. But you just completed negotiations and it would seem to me that some of this information should have been developed before that.

Secretary WIRTZ. As far as the textile industry is concerned, which has of course been a matter of special attention, all that information is directly available relating the amount of the imports to the amount of exports, to the amount of total consumption. You do get all those factors on a particular industry basis as far as that industry is concerned.

Ambassador ROTH. We have this generally, and it is in the process of being updated.

Mr. BYRNES. Well, what does it show about our growth of exports of the low-labor-content items? Is that where we are having the principal growth?

Secretary SMITH. I don't think you can answer that question in that way.

Mr. BYRNES. He said he had this information, Mr. Secretary. That is what I am trying to ask him about now.

Secretary SMITH. We can give you very easily a chart which will show the trend in exports and imports over the last 10-year period for 20 or 30 industries and give it to you tomorrow, but the labor content of those industries we do not have.

Mr. BYRNES. No, I am really not directing my comments to you, Mr. Secretary, but to Ambassador Roth because he said he had the data and it was constantly being updated.

Ambassador ROTH. I was talking about specific studies about specific industries. The general figures I can give you now, Congressman Byrnes.

Mr. BYRNES. Let me clarify for the record my discussion with Secretary Smith. I was inquiring about the broad categories of capital goods and consumer goods. In addition to the broad categories which I would like to have, have you done anything to break down the particular items Ambassador Roth, so that your office would be alerted to problem areas. In order to be alerted to problem areas it would seem necessary to have much more detail than the broad categories that the Department of Commerce lists in its general reports.

Ambassador ROTH. We have to be able in general to discuss intelligently any industry that has a problem in the trade field, whether it is billiard balls or farm machinery.

Mr. BYRNES. I know you have to be prepared to discuss it. I want to know whether you have the facts. I have heard discussions that you engaged in with other people and there seemed to be wide variance concerning whether an industry was in trouble or not. You remember a discussion with some textile people. Your contention was that they had no problems and the textile industry said they were overloaded with problems.

I wondered the degree to which you try to develop the facts currently, or whether in the Kennedy round you were depending upon facts that you developed in 1962 or 1963 when the arguments were being concluded in 1967.

Ambassador ROTH. Absolutely not. We have to have these facts. In the last weeks of the Kennedy round, as I indicated in my testimony, because of changed circumstances over the intervening period in steel, aluminum, textiles, and one example I happened to mention before, billiard balls, we changed our offer at the very end.

We had to keep up to date.

Mr. BYRNES. That brings me to a point that I think we should focus on. While you are engaged in negotiations you can change your offer in order to take care of a new situation. You withdrew an offer that you made, didn't you, in steel?

Ambassador ROTH. That is correct.

Mr. BYRNES. But once you have entered into that agreement and circumstances change, you tell Congress that we can't recognize this change; if we make any changes there is going to be retaliation.

We have flexibility while we are negotiating. You pointed out the need to be flexible and the need to change during negotiations what you planned to do and you amended your offer. But you tell us that any corrective action will throw the whole international trade picture into disarray and we will have a cycle of retaliations.

This is the aspect of this question that I don't quite understand.

Ambassador ROTH. But there you come back, I think, to the essential thing you raise, the question of facts. We feel we do have the facts.

In the case you mentioned there are facts and facts, and they will always have to be looked at in terms of such factors as the base year, et cetera. But there is the escape clause procedure, as you know, so that if an industry has been injured or is about to be injured because of any reduction——

Mr. BYRNES. Do you know the areas where we have had the biggest increases in imports? Can you give me the items that make up the increase in imports of some $11.8 billion from 1960 to 1967? What industries had the increase? What were the major items that made up this shift from $15 billion of imports in 1960 to $26.8 billion in 1967?

Can you supply that for the record?

Ambassador ROTH. Yes. Do you want it for the record or do you want me to go over it?

Mr. BYRNES. Give me the top five right now and then we will take the rest of them for the record.

(The following information was received by the committee:)

Absolute increase in imports of principal commodities, 1960–67

	Millions
Total increase in imports, 1960–67	$11,797
Food, feed, beverages	1,300
Meat and preparations	331
Alcoholic beverages	255
Fish	214
Fruits and nuts	142
Bananas	95
Vegetables	99
Sugar	81
Industrial materials	3,947
Iron and steel mill products	858
Petroleum and products	551
Copper	302
Organic, inorganic chemicals	241
Textile yarns, fabrics	240
Newsprint	176
Aluminum	137
Iron ore	122
Nickel	114
Natural gas	96
Wood pulp	91
Lumber	80
Bauxite	80
Capital equipment	2,085
Machinery	1,745
Textile and leather	168
Metalworking	166
Office machines	157
Agricultural	127
Power machinery, switch gear	110
Trucks and buses	265
Civilian aircraft and parts	75
Consumer goods	4,049
Automobiles and parts	1,729
Clothing	345
Radios, televisions, radio-phonographs	278
Gem diamonds	223
Musical instruments, sound recorders and reproducers	178
Toys, games, sporting goods	129
Footwear	115
Motorcycles and parts	91

Source: Department of Commerce.

NOTE.—Figures do not total due to rounding.

Ambassador ROTH. In terms of volume or in terms of percentage change?

Mr. BYRNES. Well, give them both ways if you have them. We can figure out which is the best later on.

Ambassador ROTH. I can do this very quickly. Petroleum products, for instance, in terms of volume——

Mr. BYRNES. Petroleum products.

Ambassador ROTH. Yes; petroleum and petroleum products.

Mr. BYRNES. Does that include your petrochemicals?

Ambassador ROTH. No, it does not; although feed stocks would be in there.

Mr. BYRNES. Give me an idea what would be included. Is it just crude petroleum?

Ambassador ROTH. Crude petroleum.

Mr. BYRNES. Is that Secretary Udall's quota that he gives out?

Secretary UDALL. Congressman, this would not be included because the crude program generally is under a quota. This would be mostly an increase in residual oil and other products, not in crude.

Mr. BYRNES. I see, residuals.

Secretary UDALL. As a matter of fact, we have had a reduction in crude because of the Middle East crisis last year.

Mr. BYRNES. That is why I couldn't understand what they would be under petroleum and that would be the big item of relative increase in imports between 1961 and 1967.

Ambassador ROTH. Feed stocks?

Secretary UDALL. No; the residual oil, which is not under the program. That is the big item in question.

Ambassador ROTH. Paper and paper-based stocks.

Mr. BYRNES. Paper and what?

Ambassador ROTH. And paper-based stocks.

Mr. BYRNES. You better emphasize that.

Ambassador ROTH. Yes, sir. Textile yarns, fabric and twine, chemicals, iron and steel products, nonferrous oils, machinery, transport equipment, autos, clothing and footwear, radios, TV's, and other consumer goods. Coffee has gone down. Meat and fish has gone down.

Mr. BYRNES. That has gone down?

Ambassador ROTH. I'm sorry. Coffee has gone down between 1960 and 1967. Meat and fish has gone up, sugar almost the same, and other foods an beverages have gone up.

Mr. Chairman, of course, some of these items are, particularly coffee and cocoa, noncompetitive.

Mr. BYRNES. I am not worried about coffee. You know that. We are not employing very many people growing coffee in this country.

Ambassador ROTH. This is the general picture.

Mr. BYRNES. I am trying to determine whether or not we are paying enough attention to maitaining a demand for low- and semi-skilled workers, Mr. Secretary. Whether our developing trade pattern favors the highly skilled labor product. Our export-import picture, whether it is deteriorating, whether it is in balance, or whether it is favorable, may have some very serious labor aspects to it at a time when we must find jobs for low- and semi-skilled workers.

Secretary WIRTZ. It will bear on the question, Mr. Byrnes, if I tell you that during the last 2 weeks of the negotiations in Geneva, when there was almost daily contact between Ambassador Roth and the various agencies of Government, the Department of Labor was, through Assistant Secretary Weaver, giving our immediate reaction every day as those questions arose in terms of the job tags which had to be attached to each. The answer to your question is that that matter was considered in those terms as actively as it could be pursued at that moment.

I do not intend to suggest that the state of the art is so complete that you can immediately translate it because one cannot. But if your question is whether the job implications of the negotiations and the development of this policy are being taken into account, I mention that as an illustration of the immediacy with which they were taken into account this last year.

Mr. BYRNES. I appreciate that during the negotiations you did give consideration to this labor factor. The problem that concerns me is what happens when we get into unforeseen circumstances, and steel may be the typical example. You made an offer you thought was safe, and you thought for a considerable period of time that you were safe to make a concession of reduced duty.

Then all of a sudden within 6 months of the time you were ready to conclude the agreement, Mr. Ambassador, you decided this would be dangerous from an employment standpoint? Isn't that right?

Ambassador ROTH. Total picture.

Mr. BYRNES. Now consider a situation that occurs a year later when your facts catch up to you after you have completed an agreement and action has been taken. We have to find some mechanism after the agreement is signed to take care of those situations just as you found a means in the negotiations to withdraw a concession.

It seems to me that is one of the problems that we have to focus on. We are now apparently stalemated by the fact that you always insist that we don't dare take any action to correct a mistake, other than through the adjustment assistance approach because we may face retaliation.

This framework worries me because it is frozen. I am not sure that I agree all this retaliation will necessarily take place.

Mr. ULLMAN (presiding). The committee will stand in recess until 2 p.m.

(Whereupon, at 12:25 p.m., the committee recessed to reconvene at 2 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. When we adjourned at noon, Mr. Byrnes had not completed his interrogation.

Mr. BYRNES. I suppose I should address this to Ambassador Roth I will have a general question later with respect to which I would like to have comments from the other witnesses.

The bill before us, Mr. Ambassador, as I read the message of the President, has four provisions. Correct me if I am wrong.

The first extends the President's authority to make tariff adjustments; that is, the unused authority, to June 30, 1970.

The second eliminates the American selling price system of customs evaluation.

The third authorizes specific appropriations for the American share of the cost of administering the General Agreement of Tariffs and Trade.

The fourth broadens the eligibility of adjustment assistance and in effect applies the adjustment assistance provisions of the Automotive Trade Act to the overall GATT items.

Is there anything else contained in this legislation that is recommended at this time?

Those are the four items. Is that the present package, or did I leave something out?

Ambassador ROTH. You left out the extension of the adjustment assistance provision in the Automotive Products Trade Act.

Mr. BYRNES. I see. There are two aspects of the adjustment assistance?

Ambassador ROTH. That is right.

Mr. BYRNES. So you have five items then.

Now, we have a very serious balance-of-payments problem. Of course, a very important aspect of balance of payments is our balance of trade.

I have pointed out that part of this problem, probably the heart of it, is the fact that our balance of trade is no longer producing the favorable balance that it has in the past. A favorable balance is necessary in some place, if we are going to offset the unfavorable aspects in our international payments.

What does this bill do to help out our immediate balance-of-payments problem, or are we considering this as fundamentally unrelated to the current balance-of-payments problem?

Let me add this one statement. This whole matter, as I understood it, became after the first of the year, an area for exploration and an area that we had to be concerned with because of the very serious balance-of-payments situation.

Now, where does it stand today?

Ambassador ROTH. That is correct, Mr. Byrnes. We started out at the beginning of the year concerned, as we still are, about our balance-of-payments situation as it relates to trade.

We were concerned about looking at two areas of possible action. One, the area that Secretary Smith discussed this morning, on export expansion.

Mr. BYRNES. There is nothing in here that does anything on that, is there?

Ambassador ROTH. No, this is a separate program.

Mr. BYRNES. I want to find out in what context this was considered.

Ambassador ROTH. There is nothing in this bill that goes directly to this problem.

If I can, let me review the administration's thinking on the balance-of-payment problem, as it relates to trade, since we last discussed it.

Mr. BYRNES. I would like to have that, but let me first clarify the context in which you are asking this committee to consider this legislation.

Do I understand that you are suggesting that we do not consider it as an integral aspect of the current, very serious problem that we have in the balance-of-payments situation?

Ambassador ROTH. That is correct.

We also are not asking you to consider it as a total trade program, which we are currently studying. It is an interim measure.

As you said, there are five parts, but there are really three which are most important: the extension of tariff-reducing authority; the amendment of the criteria for adjustment assistance, which is really a correction of what the Congress did in 1962; and the ASP package, which was negotiated in the Kennedy round.

Mr. BYRNES. It would be interesting to review the debates in 1962, when the Trade Expansion Act was presented to us. It was going to cure every problem we had, and certainly was going to cure the balance-of-payments problems which we had back in 1962.

There has been a shortfall someplace. Now this legislation is not presented as a cure for the balance-of-payments problem?

Ambassador ROTH. No. I think I can also predict in the future that no trade bill will ever be presented to you by any administration that could reasonably do that.

Mr. BYRNES. That was my understanding at that time. If you read the debates in the House, the gentleman from Louisiana and I at that time had quite a discussion on the floor. He was carrying the ball for those who said the legislation was going to take care of everything.

I suggested that I thought the administration was overselling it, as they have oversold too many measures, as to what it would accomplish.

Now, when this committee met earlier this year the administration presented a program to deal directly with the continuing serious problem of our balance of payments.

We were advised that there would be a trade package later on. Do I understand now that any recommendation in that area has been abandoned, other than the items that we had before us at that time?

Ambassador ROTH. At least as of this moment, there is no present plan to submit a separate piece of trade legislation specifically diverted to our balance-of-payments problem.

Mr. BYRNES. Now, there was something you said you wanted to add before.

Ambassador ROTH. We had, as you remember, a discussion of this before this committee earlier this year. We said that we were then discussing several possibilities with our trading partners to see if we wanted to recommend to you unilateral action on our part through the regular GATT procedures.

Actually, there were three possibilities we were considering. As of now, we are not intending to present any of these to you.

Mr. BYRNES. The point is that we still have not received a particular recommendation in this area as it relates to the current problem of the balance of payments.

Ambassador ROTH. I think as the discussions continued, and as we looked at our particular problems and the figures in greater depth, it seemed to us in the final analysis that the kind of measures we were speaking of—and the only kind that would have been accepted by our trading partners were very temporary, moderate ones—that these would not have the net trade effect that would sufficiently offset what we would lose in the long run by using, say, an import surcharge.

Mr. BYRNES. What about the surcharge?

Ambassador ROTH. We felt that any moderate, temporary, import surcharge would not have enough of a net trade effect to offset the damage it could do on a longer range basis.

Mr. BYRNES. Because of retaliation, you mean?

Ambassador ROTH. No, not because of retaliation. We felt that a number of countries who were in a deficit position, as we are, or close to it, or threatened by it, such as Canada, Japan, and the United Kingdom, would have to follow us.

There was a possibility that a number of European countries would not, at least for a period. Therefore, for a period of a year or two, we could have some net advantage out of it.

On the other hand, we were talking about a relatively small amount, a couple hundred million dollars.

I think there remains some danger when the largest economic power in the world undertakes measures like this, even though on a temporary basis, that it does set a rather dangerous example in terms of trade policies by other countries, for the future.

Mr. BYRNES. Don't you think also as the largest and most important country in the world, that we have some responsibility to set an example and that we should have the courage to put our own house in order?

What kind of example do you think we are setting today, with the adverse balance of payments that we have, and our accumulation of adverse balances over the years?

Ambassador ROTH. The answer is that you are absolutely right. We have an obligation to set our own house in order.

When we first talked to our trading partners in Europe after January 1, the first point you remember in the President's message was that we needed the tax bill.

Mr. BYRNES. That is not going to correct the current balance of payments within the near future.

Ambassador ROTH. That is right. Still, if I may make a point, this, almost like ASP. has become a symbol in Europe among the central bankers of the ability of this country to control its own economy. But it is not the answer to the immediate problem.

Nevertheless, the answer to our trade problem is basically one of controlling this economy, and having the surplus countries expand.

Mr. BYRNES. Controlling this economy?

Ambassador ROTH. Of having economic stability in costs and prices.

Mr. BYRNES. We are not doing that, though, are we?

Ambassador ROTH. Not sufficiently.

Mr. BYRNES. I have some difficulty with the idea that the way we should have our problem cured is to look to "our trading partners" to embark on a program of inflation and get ahead of us in the inflationary race.

That would improve it. Is that what you mean by this expansionary program that you say some of them have agreed to undertake?

Ambassador ROTH. Take the case of Germany. Certainly you are not talking about encouraging an inflationary mood in that country. Nevertheless, for a country in such a surplus position, it is perfectly reasonable that they have a growth rate in excess, say, of 4 percent. And it is unreasonable, getting back to this very complex problem of border taxes, when they go from under compensation to full compensation, from 4 percent to 10 percent, as they did earlier this year. Their own economists, some of them, will admit that this could have the equivalent effect of a devaluation of 1 or 2 percent. For them to do that at a time when they are in a surplus position is not reasonable, in terms of what should happen in the adjustment process.

Mr. BYRNES. Let us take the German situation. Explain, if you would, the new change that they made earlier this year in the application of their added value tax.

Didn't they generalize the tax and apply a 10-percent rate, whereas before it had been a lower rate?

Ambassador ROTH. They had before.

Mr. BYRNES. This is what they did with respect to exports, where they gave a rebate, and imports, where they imposed the tax.

Ambassador ROTH. Previously they had a turnover tax, under which each time a product changed hands, a tax was paid. Now, with that, it is very hard to calculate the tax paid in terms of the end product because in a vertically——

Mr. BYRNES. What was the net effect of it, so far as it related to exports and imports?

Ambassador ROTH. I am coming to that, but I have to state this: one item, say an automobile, in a vertical industrial situation might only go through one hand and might have a single tax while another item might change hands in the manufacturing process many times, so when you got to the end of that process, it was very hard on a product basis to calculate what the tax was.

So, in effect, at the border, using the border-tax rationale, they undercompensated for what they thought the total tax was, and they come up with 4 percent.

Mr. BYRNES. With how much?

Ambassador ROTH. With 4 percent.

So, to the extent that these taxes were passed through into price and the border tax and export rebate were undercompensated on both the import and the export side, there was perhaps even an advantage to our exports.

Then on January 1 they went to an added-value tax, 10 percent, and this very clearly indicated what the tax was at the end of the line—it was 10 percent.

So this became the border-tax adjustment.

Now, we feel that in the short run there could be—the extent we don't know—some harm to our trade in going from undercompensation at 4 percent to full compensation at 10 percent. But it is wrong to say that we are now disadvantaged as much as 6 percent, because the theory and the evidence in the long run is that a major part of the tax is passed on through into price, and there is not much of a disadvantage.

Now, having said this merely to indicate the complexity of the problem, we are nevertheless pushing very hard to try to find a better understanding of this problem, and a better way of getting at this relationship between fiscal policy and trade.

Mr. BYRNES. The net effect, though, of this whole thing has been a considerable increase in both the subsidy on their exports and the imposition of duty on imports, hasn't it?

Ambassador ROTH. The net effect has been an extra charge for the American exporter to that market, and also for the domestic producer.

Mr. BYRNES. The domestic producer within the market in Germany is what you are talking about?

Ambassador ROTH. That is right.

Mr. BYRNES. There is also a bigger impact on the imports than the impact on the domestic producer producing for that market, isn't there?

Ambassador ROTH. On the part of exports, the same theory would hold; namely, that you want to take out the price effect of that tax, which has been paid and passed forward.

We ourselves, by the way, do this with a much more limited group of products.

Mr. SMITH. I want to add to what Mr. Roth said.

We have two types of tax remission of our own. We have the drawback and customs duties, where a portion of the product has been imported, or raw material has been imported. That tax is rebated on export.

Mr. BYRNES. Are you comparing that? Do you think this is an offsetting factor to the value-added tax?

Mr. SMITH. I am just saying to this degree we are doing the same thing that they do, in a more limited way.

We also rebate manufacturer's excise taxes upon export of automobiles and tobacco. There are five products where we have tax rebates.

Mr. BYRNES. You are not suggesting are you, that the situations are at all comparable? Are you comparing the basic German taxes to the limited situation where we do have a drawback and we do have a refund of the automobile manufacturer's excise tax?

Ambassador ROTH. There is no comparability.

Mr. BYRNES. As far as I am concerned, it confuses the record to make it look like we are doing the same thing.

Frankly, I am tired of people who expect Uncle Sam to go around saying "Mea culpa, mea culpa, mea maxima culpa," we are the only bad guys around.

Ambassador ROTH. This is not the intent. My intent was to show that we have to attack the problem in a knowledgeable way.

In the discussions going on in GATT, one of the problems is to get real hard evidence as to what the effect of a border tax in Europe has been on American products.

At the beginning of the Kennedy round, we asked industries—in one case I asked four large industries—if they would finance such a study, because they would have to use confidential material that they might not want the Government to have.

You would have to do it by taking a product and costing it right through into the German market.

The material developed to date, including some of the work done by the chemical industry, has been inadequate.

Just recently one chemical company, and I can perhaps discuss this when we are in executive session, has been able, by sending people abroad, to put together some meaningful data. I hope as these negotiations in Geneva go on, we can begin to get at the guts of this issue. It is not simple.

Mr. BYRNES. They do not apply that, though, interestingly enough, to all items that come in. They don't apply the border tax on everything, do they?

Ambassador ROTH. No.

Mr. BYRNES. Yet it is supposed to be an outgrowth of a tax problem.

Ambassador ROTH. They don't apply it to the same extent to certain, as I remember, heavy products.

Mr. MALMGREN. Mr. Congressman, as to the change over in the EEC to the tax on value added, all the countries are moving toward it. Once that tax is in force, they will tax all products crossing the border, in the same way they would tax their domestic products.

Mr. BYRNES. But they apply it generally now, don't they, since the first of the year, in Germany?

Mr. MALMGREN. In Germany?

Mr. BYRNES. Doesn't Germany also except some items?

Mr. MALMGREN. Not under the new TVA system.

Mr. BYRNES. The new what?

Mr. MALMGREN. The new tax on added-value system does not exempt products.

Mr. BYRNES. For instance, does commercial aircraft pay the border tax?

Mr. MALMGREN. I am sorry, Mr. Byrnes. We will check that.

To our knowledge, the tax is paid unless the tax is not paid on the domestic product or its components coming through the system.

We will check on that.

Mr. BYRNES. I thought the tax was generalized to apply broadly as a part of German tax policy. It is then applied at the border, as part of tax policy.

I also have some information that there is sometimes selectivity at the border. When they do that it is very close to a duty or a tariff, rather than just a tax policy.

Ambassador ROTH. In the previous system, the turnover tax, there was some selectivity, but the whole point of the new system, as I understand it, is that it will be generalized across the board.

Mr. BYRNES. It is not a question of what will be. It went into effect on January 1, as I understand it.

Ambassador ROTH. Yes, it will be. We will check on this.

Mr. BYRNES. I would like to know whether or not this applies on everything, or whether there is a selectivity. Can exemption be granted to the border tax?

Ambassador ROTH. To the best of our knowledge, there is not, but we will check.

(The following information was received by the committee:)

SELECTIVITY OF THE GERMAN VALUE-ADDED TAX

1. There are only three cases in which commercial importations are exempt from the German value-added tax (TVA):

(1) Sea-going vessels (Ex Tariff Nos. 89.01 8–8 and Ex 8902 of the German Tariff Schedule);
(2) Securities, shares in corporations and other associations, legal currency, and domestic official stamps; and
(3) Blood plasma.

These products are also free from TVA internally.

2. Government purchases are not exempt from the TVA. The citation of commercial aircraft may be the result of a misunderstanding between "Duty" and "Tax". Commercial aircraft over 15,000 KG may be imported at present free of customs duty but not free of TVA into the Federal Republic.

3. There is, of course, a group of mostly non-commercial commodities, such as heirlooms, gifts, advertising media, diplomatic consignments, etc., which are not subject to TVA on importation.

Ambassador ROTH. May I say that it is in Germany and France where the system has come into effect. It will follow with the other members of the community.

Mr. BYRNES. It also has the effect of a devaluation, and particularly in terms of the relationship to the international trade market.

Ambassador ROTH. As I said earlier, the practical effect during this interim period, when you went from under-compensation to full compensation, in the case of Germany, is a devaluation of 1 or 2 percent.

This is one of the arguments that we are using. Particularly in considering the adjustment process, they being a surplus country, we being deficit, this makes no sense.

Mr. BYRNES. It certainly does not help us any. Yet we go around here justifying it, really. You come here and say this is just part of their business operation.

If we do something in our own best interest, it will apparently cause severe dislocations. Because we are the leading country, we should not do anything to cope with our balance-of-payments problem, as serious as it is.

Ambassador ROTH. Although we can understand why the EEC moves to a total added value tax. It is a cleaner way for them to handle their taxation system. But insofar as it hurts our trade, we certainly are not going to stand by idly.

This is why we have pressed, and are pressing, this matter in the GATT.

Mr. BYRNES. I get disturbed, Mr. Ambassador, because too many of our Government spokesmen always seems to be able to find a justification and a rationale for actions taken by our "trading partners." We ought to be tolerant, and we ought to be reasonable, but when we propose similar action that we feel is essential to our well-being, it is a grievious sin, and there is just no excuse for taking any action.

That disturbs me.

Ambassador ROTH. Congressman Byrnes, at least I feel that the position of the United States has changed very markedly in recent years. If we have not before, we certainly must now press very strongly where our exports are being discriminated against, no matter how good the rationale may be on the other side.

This is why we have imposed countervailing duties on transmission towers and tomato paste from Italy.

Perhaps more importantly, in poultry, for example, we decided that where we have lost markets because of subsidies by other countries, no matter how justified under the GATT, we are going to do the same. We are going to get that market back.

We are always willing to talk about it, and negotiate about it in the GATT, but we are going to get our market back.

Mr. BYRNES. Well, you were under certain instructions under the Trade Expansion Act of 1962, under section 262, weren't you?

Ambassador ROTH. That is correct, section 252.

Mr. BYRNES. Yes, section 252.

Congress said you were supposed to focus, give real attenion to removing restrictions that other countries—our trading partners—had imposed, and were imposing.

I don't want to take the time of the committee now, but I would like to ask you to furnish to the committee in detail the specific steps taken to carry out the directive of section 252. (See p. 609.)

I would like to have a country-by-country analysis, of the particular restrictions these countries have that violate GATT. I don't want generalized information, such as the 14 categories of "buy Japan" items that the Japanese have, which I understand is a violation of GATT.

Ambassador ROTH. It is not quite clear.

Mr. BYRNES. You don't know whether they violate GATT?

Those categories were defined in 1963, weren't they?

Mr. REHM. Mr. Byrnes, that is a matter with respect to, as we call it, "buy national." There is a provision of the GATT which does permit, under certain circumstances—it is not unconditional, a government to impose such requirements.

As you know, we have a Buy America Act of our own. In general, I don't believe we are in a position to answer your question as to legality. We would have to look at how the Government of Japan is applying such a requirement and with respect to specific products.

Mr. BYRNES. It was in 1963 that these 14 categories were established by Japan.

Mr. REHM. Correct.

Mr. BYRNES The net effect of that is that these products, so far as the Government is concerned, shall be bought locally, and not imported. Is that correct?

Mr. REHM. That is certainly the intent of the order.

Mr. BYRNES. In most of these categories, the purchases are restricted to purchases by the Government itself. They buy it, if there are any purchases to be made, for the domestic needs, don't they?

Mr. REHM. Yes, that is correct.

That would be one of the questions that would be germane to the issue of legality. If it is governmental procurement, it might be one thing. If it is for a private entity, in fact, it might be another.

Mr. BYRNES. This was in 1963 that this order was issued by the Japanese Finance Ministry. This is now June of 1968, and we have not even decided whether this is legal or illegal under GATT.

Where is our retaliation that you talk about? I thought that action contrary to GATT would immediately result in withdrawal of concessions, in retaliation being taken.

Here are 14 categories that are listed by the Japanese Government. They have a right to do whatever is in their best interest.

I am not angry with Japan, but I just want to find out how consistent we are.

But 4½ years later, we still haven't decided whether this action is legal under GATT or not, whether we have any right to impose withdrawal of concessions, or impost retaliatory measures.

Mr. REHM. As I understand the situation, it is not yet clear, with respect to the 14 categories you mentioned, that they have been imposed in a restrictive manner.

Mr. BYRNES. Have you looked into computers, and can you say that has not been done in a restrictive manner?

I know you are going to say they are relaxing it. That proves it was restrictive to begin with, and still is restrictive.

Mr. REHM. What objective evidence is there that it has been applied restrictively?

Our exports, as I recall, have been increasing, increasing very sharply to Japan. Is that not right?

Mr. BYRNES. They have increased, but we are also to the point where some of our computer manufacturers feel that the only way they are going to get into the Japanese market at all is by putting up a plant in Japan, and they are restricted from doing that.

Mr. REHM. The only point I was trying to make—I certainly could be wrong on the facts in this case—is that normally, and I think this is the way governments behave, and private individuals—you don't get to the question of legality until you feel there is a serious trade problem.

Mr. BYRNES. Even though they establish a restriction, you have to wait and see how restrictive it is before determining its legality. If your exports are going up by 10 percent, even though they might have gone up a hundred percent without the restriction, then you should not complain, or you should not take any action?

Mr. REHM. All I was trying to suggest is that I think you have to wait until there is a substantial and significant restrictive effect, before you do take action in terms of exercising your legal rights under the GATT.

Mr. BYRNES. I thought the Secretary was just saying that one of the reasons we were not taking remedial action is because it would not be too effective. Yet, at the same time we were hearing about restrictive imports, spokesmen from this Government were saying this kind of action on our part would lead to retaliation.

How is this consistent?

Ambassador ROTH. That was not the point.

Leaving the specific problem you mentioned, and going back to this question of illegal restrictions, and we will have a piece of paper for you, I would also like to put in a fuller paper for this committee on nontariff barriers, illegal or not.

Mr. BYRNES. I was coming to that.

Ambassador ROTH. If I could just finish.

In the case of Japan and some other countries, during the Kennedy round we pressed on the illegal restrictions, but not as strongly as legal restrictions, because by the terms of the Trade Expansion Act we could not offer tariff reductions to obtain their elimination.

Since the end of the Kennedy round, however, and particularly since this country is in a changed position, there is no excuse for us not pressing as hard as possible.

One example that is giving us great concern relates to one of our biggest export industries, and that is the automobile industry. Here the Japanese have clearly illegal restrictions.

Mr. BYRNES. Legal, or illegal?

Ambassador ROTH. Illegal.

This has been under bilateral discussion since the beginning of the year. We have finally told them that unless they come up with a satisfactory solution, in a very short period of time, we will invoke article 23 of the GATT to take them to court, which in turn will most likely give us the ability to retaliate against them.

Mr. BYRNES. On this automobile issue, when did Japan take this action, which was clearly illegal under the GATT agreement?

Ambassador ROTH. If I am correct, they were probably residual quotas from the early 1950's, when they were legal.

Mr. BYRNES. This has been going on for a number of years, at least since 1962. Is that correct?

Ambassador ROTH. That is correct.

Mr. BYRNES. I use 1962 because that is when we directed specifically that particular attention be paid to these kinds of matters by our people.

Fundamentally, the word was the President's, but there has been no withdrawal of concession, there has been no retaliatory action; has there?

Yet in your statement you pointed out that would apply right away.

Ambassador ROTH. A very good example of retaliatory action is what we did in poultry.

Mr. BYRNES. I am talking about Japan. Did poultry have any relationship to the Japanese automobile situation?

I am talking about a specific case, now, the Japanese automobile. You said it started in the 1950's. I said they have been violating GATT since at least 1962.

Ambassador ROTH. That is right.

Mr. BYRNES. Six years.

Ambassador ROTH. Both Japan and, in effect, France have still some illegal restrictions.

Mr. BYRNES. Yet we have never taken any retaliatory action on these items; have we?

Ambassador ROTH. We have been pressing very hard.

Mr. BYRNES. In the meantime, the industry that is being keep out of that market continue to be kept out of that market. Our trade suffers, as a result.

Ambassador ROTH. That is correct.

Mr. BYRNES. Are we in violation of GATT in connection with any actions we have taken relating to Japan?

Ambassador ROTH. Not that I know of. Could I broaden this question of the automobile?

Mr. BYRNES. If we did something tomorrow, I imagine that they would retaliate the next day, or very shortly. They would not wait 6 years.

Ambassador ROTH. When I spoke in my written statement of mass retaliation, I was talking in respect to a number of these quota bills which affect tremendous volumes of trade.

Mr. BYRNES. These things are also cumulative. This can also be pretty important.

Maybe you think you only have to be dealing with mass items before you have to be concerned about it, but this is not so for the people who are restricted. I might read for the record the 14 categories that are under this restriction:

Four-wheel vehicles. I know they didn't list two-wheeled vehicles. I suppose that is because they have the corner on the market, not only here but in Japan, on Hondas, Yamahas, and so forth. They did not have to restrict that.

Digital computers, office equipment, air conditioners, scales and measuring equipment, civil engineering and construction equipment, agricultural equipment, communications apparatus and radio equipment, electric wire and insulating cable, aircraft, thermal electric generating equipment, pumps, blowers, and air compressors, printing and bookbinding machines, machine tools.

They are pretty broad categories. Machine tools covers quite an area.

Ambassador ROTH. Could I also, for the record, Congressman, broaden the question on automobiles?

Mr. BYRNES. Certainly. I want all the information we can get, because I think we need it.

Ambassador ROTH. I agree. This is terribly important.

Certainly where you have a situation, as you do in automobiles, where you have a rapid increase of imports from a particular country, which happened last year in the case of Japan, we feel it is absolutely essential that our industry has a chance to compete in that market.

This is why, if need be, we will go to article 23 in the GATT on the illegal import restrictions on automobile parts and engines.

But the problem goes beyond that. The Japanese have, as the Europeans have, a road tax which we feel is discriminatory. They argue it is not. They also have, as you know, restrictions against American investment in many sectors of their economy, and this includes the automobile industry.

Certainly our industry is very anxious to export to this market. They feel they also ought to be able to invest in it.

I would like to put this on the record, because I think this is the kind of problem that we have to key into rather strongly.

Mr. BYRNES. That is what you said you would do in 1962, in the Trade Expansion Act.

The committee put in a lot of time during the discussions we had in 1962. You remember the concern we all had, that this was being ignored, that getting rid of these nontariff restrictions required greater attention.

That is why I want to find out what the situation is now.

I think it would be helpful to have the information on a country-by-country basis for those countries that are members of the GATT. We don't have to worry at this point about the ones that aren't. (See p. 609.)

I would like to know in each of these countries the actions they have taken that you believe are questionable under GATT. Apparently there is no use in asking you whether it is illegal because you wouldn't know that.

There have been some actions that are contrary to GATT, but they have been waived. I would like that information filed on a country-by-country basis.

I don't want to pick out any country, as I am not anti-Japan or anti-British, or anything else. But I want to find out what they are doing.

And then list the other restrictions on trade practiced by those countries that affect our potential exports to that country or other countries' exports to them.

I assume there are some restrictions that GATT does not cover. Does GATT cover the special weight tax that is applied on automobiles in some countries in order to make sure that the American automobile pays a penalty?

Ambassador ROTH. No.

Mr. BYRNES. That would not be considered a restriction that was in violation of GATT; would it?

Ambassador ROTH. No. The governments that have those taxes in effect have a rationale for them.

Mr. BYRNES. But it is certainly recognized, is it not, that this is not a device to raise revenue, but to restrict the sale of American automobiles?

Ambassador ROTH. Absolutely.

Mr. BYRNES. I would like those kinds of items, also, so that we can see.

Frankly, I am going to want to have this disseminated to the public, so that if anyone else knows of other items they can add them.

I also want to find out from this list how diligent you people have been to find out what is being done to harm our trade abroad.

Ambassador ROTH. May I comment on the diligence?

As a part of this study which, as I said, we felt should be done within the Government, in November in Geneva, I asked that the GATT countries put together an overall analysis of nontariff barriers around the world, and that we begin negotiations when that was completed.

As a result, we in this country, for instance, put together a list of nontariff barriers in other countries. Other countries, of course, included our nontariff barriers. These are to be submitted to the GATT Secretariat, so that they will have an overall document.

When we put our total list together, we sent it out to each of our embassies and asked them to improve on it.

Then, at the beginning of our own Trade Information Committee hearings, which started this March, we asked American industry if at all possible to tell us what their problems were.

If I could go back to the Congress's interest in 1962, in nontariff barriers, over the 4 years of the Kennedy round, we tried to get from industry as much specific data as we could in this area. Many times you will find that, although companies spoke of nontariff barriers abroad, they did not have the concrete, specific information we needed, and we have been trying to get this. We have been improving what we have received.

Sometimes there is confidential material which they feel they can't give us. In the case of one major industry that was concerned about European government procurement policies, they felt they could not give us their confidential information. If their name were used, it might hurt their reputation with the governments in particular.

So it has been a long, slow process, but it is absolutely essential when you talk in this area that you have very specific information from the people in the business. Often the people in the company do not know what is happening.

Mr. BYRNES. I would like to have the cooperation of the business community in developing this information. It seems to me they should bend over backward to be of every possible help to you.

Ambassador ROTH. It is not lack of cooperation so much as the need for them to think through this problem, and to be willing to give us the information. In many areas over the last year or two, we have begun to get it.

Mr. BYRNES. In dealing with governments both here and abroad, I knew we have the fear that you do not dare to offend the powers that be.

Ambassador ROTH. That is right.

Mr. BYRNES. When people are afraid of what the consequences are if they do what they think is right, it is one of the worst trends we have.

Ambassador ROTH. As a marginal note, I may say I came up against the same thing on the other side. A member of one of the European governments was complaining about American selling price, saying, "This is the symbol of all of America's nontariff barriers."

I said, "What nontariff barriers did you have in mind?"

He said, "I don't know but you have a lot of them."

So often they don't know specifically. There is need for specifics.

Mr. BYRNES. Along with the other data requested, I would like to have a list of what you consider nontariff barriers on a country-by-country basis.

I think we had better know what we are doing, where, and why, and the people should know.

Ambassador ROTH. That is available.

(The following material was received by the committee:)

PRELIMINARY INVENTORIES OF NON-TARIFF BARRIERS

There follow preliminary inventories of (1) other countries' industrial non-tariff barriers, (2) other countries' agricultural non-tariff barriers, and (3) alleged U.S. non-tariff barriers raised by other countries.

In addition, there is set out an article by William B. Kelly, Jr., entitled "Non-tariff Barriers". Mr. Kelly is presently with the Office of the Special Representative for Trade Negotiations. This article discusses some of the more important non-tariff barriers on industrial products imposed by countries of the EEC and the European Free Trade Association, Canada, Japan, and the United States.

PRELIMINARY INVENTORY OF NON-TARIFF BARRIERS AFFECTING UNITED STATES TRADE IN AGRICULTURAL PRODUCTS

CLASSIFICATION OF NTB's

Variable Levy	VL
Quantitative Restriction	QR
Licensing	L
Import Calendars	IC
State Trading	ST
Conditional Imports	CI
Mixing Regulation	MR
Minimum Import Price	MP
Supplementary Charge	SC
Bilateral Agreement	BA
Exchange Restrictions	X
Advance Deposits	AD
Internal Duties and Taxes	DT
Administrative Procedures	AP
Health and Sanitary Regulation	HS
Marketing Standards	MS

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Tariff Number	Commodity Description	Type of Restriction	Remarks
001.10.00	Cattle, including buffalo	HS	Imports prohibited (except as permitted by Minister for scientific or other reasons)
001.20.00	Sheep, lambs, and goats	HS	Imports prohibited
001.30.00	Pigs	HS	Imports prohibited
001.40.00	Poultry	HS	Imports prohibited, except from New Zealand
001.50.01	Horses	HS	Imports prohibited, except from New Zealand, UK and Ireland
001.50.09	Asses, mules and hinnies	HS	Same as above
001.90.01	Birds	HS	Imports prohibited
ex. 001.90.09	Other live animals, excluding rabbits	HS	Imports prohibited
ex. 001.90.09	Rabbits	HS	Imports prohibited, except from New Zealand, UK and Ireland
011.10.00	Meat of bovine animals, fresh, chilled or frozen	HS	Imports prohibited, except from New Zealand
011.20.00	Meat of sheep, lambs and goats, fresh, chilled or frozen	HS	Same as above
011.30.00	Meat of pigs, fresh, chilled or frozen	HS	Imports prohibited

Tariff Number	Commodity Description	Type of Restriction	Remarks
011.40.00	Poultry, including offals, except liver, fresh, chilled or frozen	HS	Imports prohibited, except from New Zealand
011.50.00	Meat of horses, asses and mules, etc., fresh, chilled or frozen	HS	Same as above
011.60.00	Edible offals of cattle, sheep, etc.	HS	Same as above
011.81.00	Poultry liver	HS	Same as above
011.89.00	Meat and edible offals, nes	HS	Same as above
012.10.01	Bacon and ham, dried, smoked or salted	HS	Imports prohibited
012.10.09	Other pigmeat, dried, smoked or salted	HS	Same as above
012.90.00	Meat and offals, nes, dried, smoked or salted	HS	Imports prohibited, except from New Zealand
023.00.00	Butter	HS	Imports are restricted by operations of the quasi-governmental Dairy Produce Board and the provisions of the Australia-New Zealand Free Trade agreement, as well as by quantitative against other supplier countries.

Tariff Number	Commodity Description	Type of Restriction	Remarks
025.00.00	Eggs	HS	Imports prohibited, except from New Zealand
041.00.00	Wheat, unmilled	HS	Imports prohibited, except seed, which requires a permit. The Wheat Board is the sole constituted authority of wheat market within Australia
044.00.00	Maize, unmilled	HS	Imports prohibited, except seed
045.10.00	Rye, unmilled	HS	Same as above
045.20.00	Oats, unmilled	HS	Same as above
045.90.09	Sorghums, broomcorn, etc.	HS	Same as above
051.10 and 051.20	Fresh and dried citrus fruit	HS	Requires certificates that shipments originated in a country free from citrus canker and that the fruit was effectively fumigated.
051.72.17	Walnuts	HS	Subject to import permit issued by quantitative authorities and special regulations for Western Australia.
054.10.00	Fresh potatoes	HS	Can be imported only for research. Imports permitted under special authorization, usually from New Zealand
054.40.00	Fresh tomatoes	HS	Imports prohibited except under special authorization

Tariff Number	Commodity Description	Type of Restriction	Remarks
054.50.01	Fresh onions	HS	Must be certified free of onion smut, white rot and neck rot
ex. 054.50.09	Fresh broccoli, cauli- flower, lettuce, radishes, and turnips	HS	Imports prohibited (lettuce only from countries where cabbage worms are known to exist)
054.84.00	Hop cones	HS	Must be certified as coming from a country where downy mildew is not known to exist.
061.10 and 061.20	Raw and refined sugar	QR	Importation of sugar is prohibited
091.40.00	Margarine	HS	Must be colored pink
121.00.00	Tobacco, unmanufactured, and refuse	CI, MR	To qualify for concessional rates on imports -- and all imports are bought at these rates -- manufacturers must use a mixture of 50 percent domestic leaf and buy enough Australian tobacco to last them until the next crop.
221.10.00	Peanuts	HS, CI	Import permit required. Imports under by-law provisions favored. Domestic production increasing.
221.40.00	Soybeans	HS	Imports prohibited except under permit.

Tariff Number	Commodity Description	Type of Restriction	Remarks
221.50.00	Linseed	HS	Imports prohibited except under permit.
221.60.00	Cottonseed	HS	Permit required.
263.10.01	Raw cotton, extra short staple (less than 3/4 inch)	CI	Australian manufacturers must buy the domestic lint cotton before they can qualify for tariff concessions on imports.
263.10.02	Raw cotton, short staple (3/4-7/8 inch)	CI	
263.10.03	Raw cotton, medium staple (7/8 - 1-3/8 inch)	CI	
263.10.04	Raw cotton, extra long staple (over 1-3/8 inch)	CI	
263.20.00	Cotton linter	CI	
263.30.00	Cotton waste, not carded or combed	CI	
263.40.00	Cotton, carded or combed	CI	
ex. 292.50.49	Vegetable seeds, other than beet, carrot, celery lettuce, melon and onion	HS	Bean, butterfly peas, and tomato seeds require permits. Hyancinth bean seed must be free from blights, wilts and viruses.
292.50.22	White sweet clover seed	HS	Requires permit.

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 292.50.39	Grass and field seeds	HS	Alfalfa or lucerne, barley, coffee, grain sorghum, maize, oats, flax or linseed, peanut, rice, rye, soybean and tobacco seed require permits
ex. 292.50.59	Fruit seeds	HS	Chestnut and citrus seeds require permits
ex. 292.61 and 292.69	Bulbs, tubers, corms, crowns, rhizomes and live plants	HS	Imports prohibited: alfalfa and lucerns, avocado, banana, barley, cactus, chestnuts, citrus, coffee, gooseberry, hops, potato, rice, sorghum, tobacco and tomato plants; also stone fruit trees and nursery stock, rosaceous, etc.
422.90.03	Safflower oil	CI	Subject to provisions of by-laws.

EXPLANATORY NOTES

1/ The five percent premium on Soviet barley is not an import subsidy in the sense that the Austrian Government actually pays the importer an amount equivalent to five percent of the value of Soviet barley imported into Austria. What the "five-percent clause" in barley tenders actually means is that the contract will go to the bidder on Soviet barley as long as the price for such barley does not exceed the lowest bid on non-Soviet barley by more than five percent.

2/ Under sugar law, effective October 1, 1967, and contingent upon the issuance of the relevant ordinances establishing levels of the levies and other administrative matters. Charges are not to exceed tariff rates bound in GATT or EFTA agreement.

3/ Under starch law, effective October 1967 and contingent upon the issuance of the relevant ordinances establishing the levels of the levies and other administrative matters. BTN Nos. 17.02 A, 19.04, 38.19C2, and 39.06C2b are subject to equalization fees as well as the variable import levy. Charges are not to exceed tariff rates bound in GATT or EFTA agreement

GUIDE TO RESTRICTIVE CODES

MP - Minimum price systems: Under the Austrian price equalization system for specific agricultural staples, an import subsidy in the strict sense of the word would be required only if the value of the imported farm product exceeded the fixed "gate price".

SC - Supplementary import charges, generally used in conjunction with minimum price systems: (Thus, 3,4 shown together indicate the existence of a form of variable levy system in which the minimum price acts as a trigger for the application of the supplementary import charge.) Normally, a variable levy is charged by the Austrian Marketing Boards not in addition to, but in lieu of, the statutory tariff. Only in those cases where no variable levy is applied, the statutory tariff (weight basis or ad valorem) automatically takes effect.

Hence, the variable levy such as is imposed on most grains and specific kinds of livestock products and dairy products, is equivalent to the full difference between the minimum import price ("gate price") and the invoiced value of the import shipment, cif Austrian border. It is, therefore, not quite correct to refer to the type of variable levy applied by the Austrians as a "supplementary import charge". However, No. 4, will be utilized to identify this type of charge noting the above differences in the case of Austria.

MR - "Mixing-in" regulations: "Mixing-in" regulations exist only for commercial wheat millings for which the Grain Marketing Board allocates domestic and foreign high-protein wheat to individual flour millers in varying percentages, according to the quality of the domestic bread wheat crop.

QR - Quantitative restrictions: The quantitative restriction system is implemented by licensing and may be a global or country quota upon which public import tenders are issued.

ST - State Trading

GUIDE TO RESTRICTIVE CODES (cont.)

* - Commodities for which there is de facto discrimination against imports from the U.S. Where method of discrimination is not indicated by footnotes it derives from the practice (with few exceptions) of specifying Eastern European Countries as sources of supply on the tenders which are issued for imports. This discrimination against the U.S. may be variable. For example, eligible sources in the case of feed grains are sometimes limited to Eastern Bloc countries to help clear bilateral accounts. In other cases procurement is on a much wider basis, including the United States.

Tariff Number	Commodity Description	Type of Restriction	Remarks
01.01	Live horses, for slaughter	MP, SC, QR*	
01.02	Live bovine cattle including buffalo, for slaughter	MP, SC, QR*	
01.03	Live pigs, for slaughter	MP, SC, QR*	
02.01	Meat and edible offals of the animals falling within headings No. 01.01 (horses), 01.02 (Bovine cattle), 01.03 (Swine)	MP, SC, QR*, HS	Imports of raw pork from the U.S. are prohibited.
02.02	Killed poultry of No. 01.05 meat and edible offals (except liver), fresh, chilled, frozen	QR*, BA	Poultry is liberalized for GATT countries except the U.S. and Canada. Imports from the U.S. are limited by an annual quota for different classes of birds. Agreement with Finland and five Eastern European countries providing for imports of poultry meat.
02.05 A	Unrendered poultry fat, fresh, chilled, frozen, salted, dried or smoked	MP, SC, QR*	
02.06	Meat and edible offals (except poultry liver), salted, dried or smoked	MP, SC, QR*	

Tariff Number	Commodity Description	Type of Restriction	Remarks
04.01	Milk and Cream, fresh, not concentrated or sweetened	MP, SC, QR	Cow's milk in any form, and milk products are covered by the import levy and minimum pricing system
04.02	Milk and cream, preserved, concentrated or sweetened	MP, SC, QR	
04.03	Butter	MP, SC, QR	
04.05	Shell eggs	SC	Austria frequently makes use of a sliding scale tariff for these items
07.01	Vegetables, fresh or chilled	IC	Tariff schedules are on an IC basis on all fresh vegetables except artichokes, horseradish, celery, garlic, olives, truffles, and mushrooms
07.01 A	Ware Potatoes	QR, IC	QR applies from: Year round
B 2,3,4	Tomatoes	QR, IC	QR applies from: 7/16 - 10/31
C 1b,c,d	Cauliflower	QR, IC	QR applies from: 6/1 - 12/15
C 2b	Brussels Sprouts	QR, IC	QR applies from: 8/1 - 2/28
C 3	Kohlrabi	QR	
C 4b,c,d	Headed Cabbage	QR, IC	QR applies from: 6/16 - 2/28
C 5b,c,d	Other Cabbage	QR, IC	QR applies from: 6/16 - 1/31
D 1b,c,d	Spinach	QR, IC	QR applies from: 4/1 - 11/30
D 2	Cabbage lettuce	QR	
D 3b,c,d	Endives	QR, IC	QR applies from: 8/1 - 2/15
E 1b,c,d	French beans	QR, IC	QR applies from: 6/1 - 10/15
E 2b,c,d	Garden Peas	QR, IC	QR applies from: 5/16 - 9/30

Tariff Number	Commodity Description	Type of Restriction	Remarks
07.01 F 1	Gherkins and Cucumbers of all kinds	QR	
F 3	Fresh Paprika	QR	
H 1 b,c,d	Carrots	QR, IC	QR applies from: 6/1 - 2/28
H 2 b,c,d	Celeriac	QR, IC	QR applies from: 8/1 - 2/28
H 3	Common Radishes	QR	
H 4 b,c,d	Red Beetroot	QR, IC	QR applies from: 7/1 - 3/31
K 2 b,c,d	Onions and shallots	QR, IC	QR applies from: 8/1 - 3/15
08.02	Lemons	HS	Citrus fruit treated with diphenyl and flavor seal waxes is considered an adultrated food product and must be labelled accordingly. If the surface is shemically treated, the label must warn against the use of peels for food purposes
08.04 A	Grapes, fresh, also pulp	QR, IC	QR applies from 8/21 - 10/10; tariffs on IC basis
08.06 A	Apples	QR, IC	QR year round; enters free 4/1 - 7/15
B	Pears	QR, IC	QR applies 8/1 - 12/31; enters free 1/1 - 7/31
08.07 A	Apricots	QR, IC	Subject to QR 7/1 - 8/31; enters free 9/1 - 6/30
B	Peaches	QR, IC	Subject to QR 7/16 - 9/30; enters free 10/1 - 7/15
C	Cherries	QR, IC	Subject to QR 5/26 - 7/31
E	Plums and Prunes	QR, IC	Subject to QR 8/1 - 10/31; enters free 11/1 - 7/31

Tariff Number	Commodity Description	Type of Restriction	Remarks
08.08 A	Strawberries	QR, IC	Strawberries subject to QR 6/1 - 7/13
08.08 C	Currant (black and red)	QR	Subject to QR year round
10.01	Wheat and mixed wheat and rye	MP, SC, MR, QR*, ST	Austrian wheat tenders usually specify Canada as sole source of supply for high-protein, bread wheat and durum wheat, but specification to type and grade may vary. The US may become an eligible source of supply with the introduction of new US wheat standards
10.02	Rye	MP, SC, QR*,ST	
10.03	Barley	MP, SC, QR*, ST	Austrian feed grain tenders carry a 5% premium for barley imported from USSR 1/
10.04	Oats	MP, SC, QR,	Simplified importing procedure w/o source specification or import levies - at present.
10.05	Maize	MP, SC, QR*,ST	
10.07	Millet and durra	MP, SC, QR, ST	
11.01	Cereal flours	MP, SC, QR, ST	Implementation of existing mill rehabilitation law pre-supposes rigid curtailment of flour imports (wheat) which in absence of NTB's would be effected through high tariffs

Tariff Number	Commodity Description	Type of Restriction	Remarks
11.02B	Cereal groats and cereal meal, other worked cereal grains (rolled or flakes, etc., exc. husked, glazed and broken rice), edible germs of cereals	MP, SC, QR, ST	
11.07 A	Malt, unroasted	ST	
11.08	Starches and starch flour, inulin	MP, SC, QR	3/ Quota
12.04 A	Sugar beets, including beet cuts	MP, SC	2/
15.01 A	Lard, lard oil	MP, SC, QR*	
15.02	Raw and rendered tallow of cattle, sheep, and goats, other than technical tallow such as prime tallow, fancy tallow, and yellow	MP, SC, QR*	Inedible technical tallow bound free, liberalized vis-a-vis dollar area. Quota on the rest.
16.01	Sausages and the like of meat or meat offals	MP, SC, QR	
16.02 B	Other prepared or preserved meat and meat offals except pate de foie gras	MP, SC, QR*	

Tariff Number	Commodity Description	Type of Restriction	Remarks
16.03	Meat extracts, soups and broths	MP, SC, QR*	
17.01	White sugar, solid except crude or sugar candy	QR	Quota
17.01	Sugar raw or refined from beets or cane	MP, SC	2/
17.02 A	Glucose (starch sugars) less than 98% purity	MP, SC, QR	3/ Quota
17.02 D	Artificial honey	MP, SC	2/
17.02 E	Colored sugar	MP, SC	2/
17.02 F	Invert sugar	MP, SC	2/
17.02 G	Other Sugar	MP, SC	2/
17.03	Molasses, also decolored	MP, SC	2/
17.05	Sugar, syrup, molasses, mixed w/aromas or colors, excluding fruit juices w/sugar added		2/
19.04	Tapioca and sago, incl. similar preparations from potato starch	MP, SC	3/

Tariff Number	Commodity Description	Type of Restriction	Remarks
20.07 A	(Concentrated) juices of apples and grapes whether or not containing sugar, but unfermented and not containing alcohol	QR	Quota
20.07 B	Juices of apples and grapes whether or not containing sugar but unfermented and not containing alcohol	QR	Quota
22.04	Grape must, in fermentation or with fermentation arrested otherwise than by addition of alcohol	QR	Quota
22.05	Wine of fresh grapes, including grape must with added alcohol	QR	Quota
22.06	Vermouths and other wines flavored with aromatic essences	QR	Quota
23.02	Bran	QR, ST	
23.07	Forage, in so far as it contains cereal products	ST	

Tariff Number	Commodity Description	Type of Restriction	Remarks
24.01	Unmanufactured tobacco; tobacco refuse	ST	Monopoly administration "full"
24.02	Manufactured tobacco; tobacco extracts and essences	ST	Monopoly administration "full"
38.19 C	Core binder used in foundry work on basis of starch and dextrine	MP, SC	3/
39.06 C 2 b	Starch-ether soluble in water, and starch ester	MP, SC	3/

Tariff Number	Commodity Description	Type of Restriction	Remarks
01.01-01.05	Livestock	HS, L	) Must comply with provisions of) the Animal Disease and
02.01	Meat	HS	) Meat Instpection Act
04.02	Skim milk powder	L	
04.03	Butter	L	
04.04	Colby and Cheddar Cheese	L	
06.	Plants	HS	Must conform with regulations of the Insect and Pest Act
10.01	Wheat	ST, L	
10.03	Barley	L	
10.04	Oats	L	
11.01	Wheat flour	L	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 01.02	Live animals of the bovine species <u>except</u> breeding animals	L, HS	
ex. 01.04	Live sheep and goats <u>except</u> breeding animals	L, HS	
ex. 01.05	Live poultry (fowls, ducks, geese, turkeys and guinea fowls) <u>except</u> breeding animals	L, HS	
02.01	Meat and edible offals of the animals falling within heading Nos. 01.01, 01.02, 01.03, 01.04, fresh, chilled, or frozen	Q, L, HS	
02.02	Dead poultry (fowls, ducks, geese, turkeys and guinea fowls) and edible offals thereof (<u>except</u> liver), fresh, chilled or frozen	L, HS	
02.03	Poultry liver, fresh, chilled, frozen, salted or in brine	L, HS	

Tariff Number	Commodity Description	Type of Restriction	Remarks
02.05	Unrendered pig fat free of lean meat and unrendered poultry fat, fresh, chilled, frozen, salted in brine, dried or smoked	L, HS	
ex. 02.06	Meat and edible meat offals (except poultry liver) of animals falling within heading Nos. 01.01, 01.02, 01.03, 01.04, salted, in brine, dried or smoked	Q, L, HS	
04.01	Milk and cream, fresh, not concentrated or sweetened	L	
04.02	Milk and cream, preserved, concentrated or sweetened	L	Minimum import price, enforced by a levy applies to skim milk powder for feed
04.03	Butter	L	
04.05	Birds' eggs and egg yolk, fresh dried or otherwise preserved, sweetened or not	L	
04.06	Natural honey	Q	Global quota

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 06.01	Bulbs of tulips, narcissus and hyacinth also in growth or in flower	Q	Global quota
06.03	Cut flowers and flower buds of a kind suitable for bouquet or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared	Q, L	
ex. 07.01	Vegetables, fresh or chilled, gherkins and cucumbers; celery and celeriac; cauliflower, broccoli, Brussel sprouts and cabbage; carrots, horseradish and beetroot; potatoes <u>except</u> seed potatoes; sweet capsicum (capsicum grossum) leeks and onions <u>except</u> onions for planting with a maximum cross section of 21 mm; spinach, chicory (chichorium intybus) and lettuce (lactucia sative); tomatoes and peas	L, IC	Import licenses are issued freely during that period of the year in which imports are admitted under the calendar system.

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 07.02	Vegetables (whether or not cooked) preserved by freezing; the following: peas, beans, asparagus, spinach and red cabbage and mixtures containing any of these vegetables	L, Q	
07.03	The following vegetables, provisionally preserved in brine, in sulphur water or in other preservative solutions, but not specially prepared for immediate consumption: gherkins and cucumbers; celery and celeriac; cauliflower, broccoli, Brussel sprouts and cabbages; carrots, horseradish and beetroot; potatoes; sweet capsicum (capsicum grossum): leeks and onions; spinach, chicory (cichorium intybus) and lettuce (lactuca sativa); tomatoes and peas; mixtures containing any of these vegetables	L, Q	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 07.06	Marrow of sago palm, manioc, arrowroot, sweet potatoes and other similar roots and tubers with high starch or inulin content, fresh or dried, whole or slices; <u>except</u> salep and Jerusalem artichokes	L	
08.06	Apples and pears, fresh	L, IC	
ex. 08.07	Stone fruits, fresh, <u>except</u> peaches and apricots	l, IC	Import licenses are issued freely during that period of the year in which imports are admitted under the calendar system.
ex. 08.08	The following berries, fresh: raspberries, elder-berries, straw-berries, red or white, and black currants	L, IC	
08.09	Netted melon, fresh	L, IC	

Tariff Number	Commodity Description	Type of Restriction	Remarks
08.10	Fruits (whether or not cooked), preserved by freezing, not containing added sugar: Pears, cherries, raspberries, strawberries, and mixtures containing 30 percent or more of these fruits, regardless of the size of the packings. Apples, all kinds of plums, red or white currants, black currant and mistures of these fruits - in packings with a gross weight of more than two kilograms each	L	
08.11	Fruits, provisionally preserved in brine, in sulphur water or in other preservative solutions, but not specially prepared for immediate consumption. Apples, pears, plums, raspberries, elderberries, strawberries, red or white currants, black currants, and mixtures of these fruits	L	
09.01	Coffee, whether or not roasted or freed of caffeine, coffee substitutes containing coffee in any proportion	Q	

Tariff Number	Commodity Description	Type of Restriction	Remarks
10.01	Wheat and meslin (mixed wheat and rye)	MP, SC MR, L	Minimum price and levy applies only to feed wheat and feed rye. The proportion of domestically produced wheat and rye in bread grains was raised to 100% for wheat in July 1960 and for rye in September 1959, thus in effect excluding imports for milling, except in certain years.
10.02	Rye	MP, SC MR, L	Minimum price and levy applies only to feed wheat and feed rye. The proportion of domestically produced wheat and rye in bread grains was raised to 100% for wheat in July 1960 and for rye in September 1959, thus in effect excluding imports for milling, except in certain years.
10.03	Barley	MP, SC, L	
10.04	Oats	MP, SC, L	
10.05	Maize	MP, SC, L	Import licenses issued freely only during 11/1-5/31 period.
10.07	Buckwheat, millet, canary seed and grain sorghum, other cereals	MP, SC, L	
11.01	Cereal flours, <u>except</u> rice flour	MP, SC, MR, L	
11.02	Cereal groats and cereal meals <u>except</u> corn grits, buckwheat and millet; other worked cereal grains (for example, flaked, polished, pearled or kibbled, but not further prepared) <u>except</u> husked, glazed, polished or broken rice, buckwheat and millet; germ of cereals, whole, rolled, flaked or ground	MP, SC, MR, L	

Tariff Number	Commodity Description	Type of Restriction	Remarks
11.05	Flour, meal and flakes of potatoes	L, HS	
11.06	Flour and meal of sago; manioc root, arrowroot and roots and tubers falling within heading No. 07.06 _except_ for animal feeding and salep	L, HS	
11.08	Starches, _except_ salep; inulin	L	
11.09	Gluten and gluten flour, roasted or not	L	
ex. 12.01	Rapeseed, whole or broken	Q	
12.04	Sugar beet, whole or sliced, fresh, dried, or powdered; sugar cane	L	
12.10	Mangolds, swedes, other fodder roots products and sugar canes	L	
ex. 15.01	Lard and other rendered pig fat; rendered poultry fat, _except_ for technical purposes	L, HS	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 15.02	Unrendered fats of bovine cattle, sheep or goats; tallow (including "Premier Jus") produced from those fats <u>except</u> for technical purposes	L, HS	
ex. 15.03	Lard stearin, oleostearin and tallow stearin; lard oil, oleo oil and tallow oil, not emulsified or mixed or prepared in any way, <u>except</u> for technical purposes	L, HS	
ex. 15.13	Imitation lard and other prepared edible fats	L	
16.01	Sausages and the like, of meat, meat offal or animal blood	Q, HS	Global quota
ex. 16.02	Other prepared or preserved meat or meat offal except pate de foie gras	Q, HS	Global quota
17.01	Beet sugar and cane sugar, solid	L	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 17.02	Other sugars, <u>except</u> milk sugar (lactose); sugar syrups; artificial honey (whether or not mixed with natural honey); caramel	L	
ex. 17.03	Molasses, whether or not decolorized, <u>except</u> for animal feeding	L	
ex. 17.04	Fondant, pastes, creams and similar intermediate products, in bulk, with an added sweetening matter content of 80% or more	L	
ex. 17.05	Flavored or colored sugars, syrups and molasses but not including fruit juices containing added sugar in any proportion, <u>except</u> vanilla sugar and vanillin sugar	L	
19.03	Macaroni, spaghetti and similar products	Q	Global quota
19.04	Tapioca and sago; tapioca and sago substitutes obtained from potato or other starches <u>except</u> salep grain and flakes	L	

Tariff Number	Commodity Description	Type of Restriction	Remarks
20.02	The following vegetables prepared or preserved otherwise than by vinegar or acetic acid: Peas, beans, asparagus, spinach, red cabbage and potatoes, and mixtures containing these vegetables	Q, L	
20.03	Fruits, preserved by freezing, containing added sugar: Pears, cherries, raspberries, strawberries and mixtures containing 30% or more of these fruits - regardless of size of the packings. Apples, all kinds of plums, red or white currants, black currants, and mixtures of these fruits - in packings with a gross weight of more than two kilograms each	Q	
20.06	Fruit otherwise prepared or preserved, whether or not containing added sugar or spirit; Pears, cherries, raspberries, strawberries, and mixtures containing 30% or more of these fruits - regardless of size of the packing. Apples, all kinds of plums, red or white currants, black currants and mixtures of these	Q	

Tariff Number	Commodity Description	Type of Restriction	Remarks
20.06 (cont.)	fruits - in packings with a gross weight of more than two kilograms each		
20.07	The following fruit juices, whether or not containing added sugar, made from: Apples, pears, cherries, raspberries, elder-berries, strawberries, red or white currants, black currants, and mixtures containing juices of these fruits	Q	
ex. 21.07	Sweet fat (sugar/fat mixtures)	Q	Global quotas
22.05	Wine of fresh grapes; grape must with fermentation arrested by the addition of alcohol	Q	
22.06	Vermouths, and other wines of fresh grapes flavored with aromatic extracts	Q	
22.07	Other fermented beverages (for example, cider, perry and mead)	Q	

Tariff Number	Commodity Description	Type of Restriction	Remarks
22.08	Ethyl alcohol or natural spirits, undenatured, of a strength of eighty degrees or higher; denatured spirits (including ethyl alcohol and neutral spirits) or any strength	L	
ex. 22.09	Ethyl alcohol, undenatured, of a strength under eighty degrees	L	
23.02	Bran, sharpes, and other residues derived from the sifting, milling, and working of cereals and of leguminous vegetables	L	
ex. 23.03	Maize gluten feed	L	

EXPLANATORY NOTES

Abbreviations

F - France
G - Germany
B - Belgium, Luxembourg
N - Netherlands
I - Italy

Notes

1/ France does not admit poultry from any country that does not by law forbid the feeding of estrogens, arsenicals, and antimonials to poultry (poultry liver is excepted from this regulation.)

2/ According to the proposed fruit and vegetable Regulation (12/31/67), quantitative restrictions by Member States on products covered by the FRUIT AND VEGETABLE CAP are to be abolished by July 1, 1968 with the exception of these products, for which final liberalization is scheduled on January 1, 1970.

3/ Germany prohibits pickles containing alum.

4/ The extremely difficult standards set for EEC CLASS EXTRA fruit (their top grade) made it almost impossible for American exporters to obtain this classification; it is believed that this hinders our sales of citrus fruit, apples and pears.

5/ The basic French law governing country of origin marking calls for the name of the country of origin to be embossed in can ends. Although this requirement is sometimes satisfied by stamping with indelible ink, it causes considerable additional trouble and expense to U.S. exporters of canned food.

Tariff Number	Commodity Description	Type of Restriction	Remarks
01.01 AIIa	Foals for butchering	QR(B)	
ex. AIII	Other foals	QR(B)	
01.02 AII	Live animals of the bovine species domestic except breeding stock	VL, QR	BEEF CAP. Reduced or suspended when market prices exceed guide price. Annual quota of 5,000 head in Schwyz, Simmenthal and Frebourg stock. Annual quota of 20,000 head on heifers and cows other than for slaughter, of the mountain races.
01.03 AII	Live animals of the porcine species, except breeding stock	VL, L	PORK CAP.
01.04AIb	Live sheep, other than purebred, for breeding	ST(G), QR(G,F)	
01.05	Live poultry	VL, HS(F)	1/ POULTRY CAP
02.01 AI	Horse and mule meat	QR(F), HS(F)	Imports of meat and offals of horses, donkeys and mules are prohibited.
02.01 AI	Foal meat, fresh, chilled	QR(B)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
02.01 AII	Bovine meat, fresh, chilled, frozen (beef and veal)	VL, L, OR, HS(G)	BEEF CAP. Reduced or suspended when market prices exceed guide price. Levy not to exceed GATT binding on frozen beef. Frozen beef -- annual quota of 22,000 MT. Import license mandatory for frozen beef imports; licensing requirements may be applied by Member States on: ex. 02.01 BII, beef offals; ex. 02.06 C, salted beef; ex. 16.01, sausage containing meat or bovine offals; ex. 16.02 AII, other prepared or preserved meats containing liver of bovine; ex. 16.02 BII, other prepared or preserved meat containing meat or offals of bovine, unspecified. Imported beef cuts not permitted by Germany.
02.01 AIIIa	Meat of domestic swine, fresh, chilled or frozen	VL, HS(G), L	PORK CAP. Imports of U.S. pork are prohibited by Germany. Levy not to exceed GATT binding.
02.01 AIV	Mutton, fresh, chilled or frozen	QR(G), ST(G)	
02.01 BIII	Edible sheep offals	QR(G), ST(G)	
02.01 BII	Pork offals, fresh, chilled or frozen	VL, L	PORK CAP.

Tariff Number	Commodity Description	Type of Restriction	Remarks
02.02	Poultry meat and edible offals (except liver), fresh, chilled, or frozen	VL, HS(F)	1/ POULTRY CAP
02.03	Poultry liver, fresh, chilled, frozen or in brine	VL	POULTRY CAP. Levy not to exceed GATT binding.
02.05	Unrendered pig or poultry fat, free of lean, fresh, chilled, frozen, salted or in brine, dried or smoked	VL, L	PORK CAP, POULTRY CAP
02.06 B	Meat and edible offals of pork, salted or in brine, dried or smoked	VL, L	PORK CAP
ex. 02.06 C	Beef, salted or in brine	VL	BEEF CAP. Effective 10/16/67, subject to levy at least equal to the corresponding levy on frozen beef (Regulation 617/67).
04.02	Milk and cream, preserved, concentrated, or sweetened	VL, L	DAIRY CAP. Whole milk powder in hermetically sealed packages, containing not more than 1 kg. net weight of powder are excluded from the licensing requirements.
04.03	Butter	VL, L	DAIRY CAP.

Tariff Number	Commodity Description	Type of Restriction	Remarks
04.04	Cheese and curd	VL	DAIRY CAP. Levy should equal duty bound in GATT for Emmenthal, Guyere, Schabzieger and cheddar cheese
ex. 04.05 A	Poultry eggs, in shell, fresh or preserved	VL	EGG CAP.
ex. 04.05 BI	Poultry eggs not in shell and egg yolks, for human consumption	VL	EGG CAP.
ex. 05.15 ex. B	Animal sperm	QR(F)	
ex. 06.01 B	Bulbs, onions, tubers, etc., in growth or in flower	QR(F)	Sanseverias liberalized.
ex. 06.02	Other live plants and roots, etc.: Apple trees and all forms coming from seedlings or seeds; Budding or flowering indica azalea; Other budding or flowering azalea	QR(G)	
ex. 06.02 B	Vine slips, grafted or rooted	QR(F)	
ex. 06.02 CIIb2	Hot or cold greenhouse plants, flowering or budding	QR(F)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
06.03	Cut flowers and flower buds: Dianthers, roses, onion flowers, other	QR(G)	
06.03	Cut flowers and flower buds suitable for bouquets or ornamental purposes	QR(F)	
06.03 A	Fresh cut flowers and flower buds suitable for bouquets or ornamental purposes	QR(B,N), IC	
07.01 AI	Seed potatoes	QR(G)	Potatoes (07.01 A) are not included in the FRUIT AND VEGETABLE CAP as presently constituted.
AII	Early potatoes	QR(G,B,F), IC	
AIII	Other potatoes	QR(G,F)	
07.01 BI	Cauliflower	IC	
07.01 D	Lettuce and endives 11/15-3/31	QR(G,F,B)	2/
07.01 DI	Cabbage, lettuce	IC	
07.01 FI	Peas	IC	
07.01 FII	Beans	IC	2/
	Beans (not including beans to be shelled and shelled beans), 6/1-9/30	QR(G,F,B)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
07.01 GI	Celeriac	IC	
07.01 GII	Carrots and turnips	IC	
07.01 L	Artichokes, 3/15-6/30	QR (F)	2/
07.01 M	Tomatoes, 5/15-12/31	MP, SC, IC QR (G,F,B)	2/ FRUIT AND VEGETABLE CAP.
07.01 N	Olives, fresh or chilled	VL	FATS AND OILS CAP. Levy applies to the oil content of olives imported for purposes other than canning.
07.01 O	Cucumbers	IC	
07.02	Vegetables, frozen	QR (F)	
ex. 07.03 A	Olives, preserved in brine or other solutions	VL	FATS AND OILS CAP. Levy would apply to the oil content of olives imported for purposes other than canning.
ex. 07.03 C	Pickles	HS (G)	3/
ex. 07.04 B	Olives, dried	L	FATS AND OILS CAP

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 07.04 A	Dried onions	QR(F)	
07.04 BII	Dried potatoes except products covered by BTN 11.05	QR(F)	
07.04 BIII	Other dried vegetables except olives	QR(F)	
ex. 07.05 A	Beans intended for sowing)		
	Kidney or horse beans)		
B	Lentils)	QR(G)	
	Peas imported for sowing)		
	Forage peas)		
ex. 07.06	Roots of manioc, arrow-root, salep, and other similar roots and tubers with high starch content except sweet potatoes	VL, L	GRAIN CAP.
ex. 08.01 ex. A	Dates, except packaged 500 gr. or less	QR(I)	
08.01 B	Bananas	QR(F,I), ST(F,I)	
08.01 C	Pineapples	QR(F)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
08.02	Citrus fruits, fresh or dried	MS, HS	The use of diphenyl in treating citrus fruit is limited to 70 ppm (U.S. tolerance is 110 ppm); labeling of the retail product is also required. In addition, Germany requires that peels of products so treated be labeled as not fit for eating.
08.02 A	Oranges	MP, SC, IC	FRUIT AND VEGETABLE CAP.
08.02 B	Mandarins and clementines	MP, SC	FRUIT AND VEGETABLE CAP.
08.02 C	Lemons	MP, SC	FRUIT AND VEGETABLE CAP.
ex. 08.04 A	Table Grapes	MP, SC, IC	
	Table Grapes	QR (F,B)	2/
08.04 AIb,bb	Fresh grapes for wine production	QR (I)	Upon implementation of the PROPOSED WINE CAP, the QR will be abolished.
B	Raisins	HS (G)	Germany restricts the use of sulphur dioxide in treating fruits. This restriction has hampered our sales of bleached raisins
08.06 A	Apples	MP, SC, IC, MS, HS (G)	4/ FRUIT AND VEGETABLE CAP. Post harvest treatment of apples and pears is not specifically permitted by German regulations. As a consequence, U.S. exports of these products have been stopped.
B	Pears		

Tariff Number	Commodity Description	Type of Restriction	Remarks
08.07 A	Apricots, 6/15-7/31	QR (F)	2/
B	Peaches	MP, SC, IC	FRUIT AND VEGETABLE CAP.
C	Cherries		
D	Plums		
08.08 A	Strawberries	IC	
ex. 08.09	Melons, 7/1-10/15	QR (F)	2/
ex. 08.10	Fruit preserved by freezing without sugar	QR (F)	
08.11	Fruits provisionally preserved in brine or other preservative solutions	QR (F)	Cherries are liberalized.
ex. 08.12	Dried fruit	HS (I)	The use of sulphur dioxide on dried "cut" fruit is restricted by Italy.
C	Prunes	QR (F)	
ex.EII	Fruit mixtures more than 20% prunes		
ex. 09.01	Coffee neither roasted nor caffeine free	QR (G,B,N)	
	Roasted, caffeine free	QR (G)	
	Roasted, not caffeine free		
10.01	Wheat and meslin	VL, L	GRAIN CAP.

Tariff Number	Commodity Description	Type of Restriction	Remarks
10.02	Rye	VL, L	GRAIN CAP.
10.03	Barley	VL, L	GRAIN CAP. Imports to Italy subject to special rules allowing for reduced levies until 7/31/72.
10.04	Oats	VL, L	GRAIN CAP. Imports to Italy subject to special rules allowing for reduced levies until 7/13/72.
10.05	Corn	VL, L	GRAIN CAP. Imports to Italy subject to special rules allowing for reduced levies until 7/31/72. 4% binding on seed corn (10.05 A).
10.05	Rice	VL, L	RICE CAP.
10.07	Buckwheat, Millet, canary seed, grain sorghum, other cereals	VL, L	GRAIN CAP. Imports to Italy subject to special rules allowing for reduced levies until 7/31/72.
11.01	Cereal flours	VL, L	GRAIN CAP, RICE CAP
11.02	Cereal groats and meal, other worked cereal grains except brushed, glazed, polished or broken rice; germs of cereals including flours thereof	VL, L	GRAIN CAP, RICE CAP

Tariff Number	Commodity Description	Type of Restriction	Remarks
11.06	Flour and meal of sago, manioc, arrowroot, salep and other roots and tubers falling within BTN 07.06	VL, L	GRAIN CAP.
11.07	Malt, roasted or not	VL, L	GRAIN CAP.
11.08 A	Starches	VL, L	GRAIN CAP, RICE CAP
B	Inulin	QR (F)	
11.09	Gluten and flour, roasted or not	QR (G)	
12.03 A	Sugar beet seeds Rutabaga seeds Seed of sugar beets for fodder and other seeds for fodder	QR (G)	
B	White clover seeds Ryegrass seeds, perennial Italian ryegrass, perennial Westewaled ryegrass, perennial French ryegrass, perenn. Timothy seeds Orchard grass seed Meadow fescue seed Red fescue seed	QR (G)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
12.04	Sugar beets and sugar cane	VL, L	SUGAR CAP. Levy applied on the basis of the saccharose content of the imported product.
12.05	Chicory roots, unroasted	QR (F,B)	
12.06	Hop cones and lupulin	QR (F,B)	
ex. 12.08 A	Locust beans, fresh or dried	QR (I)	
ex. 12.10	Luciene flour	QR (G)	
ex. 13.03	Vegetable saps and extracts		
AIV	Of hops)	QR (F)	
B	Pectin)	QR (F)	
15.01 AI	Lard for industrial use	QR (F)	
15.01 AII	Rendered lard and other pig fat, not for industrial use	VL, L	PORK CAP
15.01 B	Rendered poultry fat	VL	POULTRY CAP
15.02	Tallow, rendered or unrendered	MR (G)	
ex. 15.03	Other oils and stearins not designated, except oleo oil and tallow	QR (F)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 15.03 (cont)	Oleo stearin and lard stearin, for nutrition	ST (G)	
BI	Lard oil	ST (F)	
ex. 15.07	Olive oil, crude, refined or purified	VL, L	FATS AND OILS CAP.
ex. 15.10	Acid oils from refining	QR (I)	
15.13	Margerine, shortening	MR (G)	
ex. 15.17	Residues containing oil, having the characteristics of olive oil	VL, L	FATS AND OILS CAP. Levy collected on the basis of the olive oil levy, according to the oil content of the imported product. Not to exceed GATT binding.
ex. 16.01	Pork sausages, and the like, of meat, offal or blood	VL, L	PORK CAP. Levy not to exceed GATT binding.
	Sausages of sheep and sheeps' liver	QR (G)	
	Sausages except those containing pork or ox meat or offals	QR (B, N)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 16.02 AII	Other prepared or preserved meat or offal containing pork liver	VL, L	PORK CAP. Levy not to exceed GATT binding.
16.02 BI	Other prepared or preserved meat or offal of poultry	VL	1/ POULTRY CAP. Levy not to exceed GATT binding.
ex. 16.02 BII	Other prepared or preserved pork or pork offal	VL, L	PORK CAP.
16.02 BIII	Prepared or preserved sheep or sheep offals	QR (G)	
	Other prepared or preserved meat excluding chicken, pork, & oxen	QR (B,N)	
17.01	Beet and cane sugar, solid	VL, L	SUGAR CAP.
ex. 17.02	Other sugars, syrups, artificial honey, caram lized sugar and molasses and their syrups Except:	VL, L	SUGAR CAP. Levy applied on the basis of the saccharine content of the imported product. Levy on maple sugar and syrup not to exceed GATT binding.
17.02 A	Lactose and lactose syrup	VL	DAIRY CAP.
BII	Glucose and glucose syrup	VL, L	GRAIN CAP.

Tariff Number	Commodity Description	Type of Restriction	Remarks
17.03	Molasses	VL, L	SUGAR CAP
ex. 17.04	Sugar confectionary not containing cocoa	VL	PROCESSED FOOD CAP
B	Chewing gum		
C	Other		
ex. 17.05	Flavored or colored sugars and molasses (ex. lactose and glucose)	VL, L	SUGAR CAP. Levy applied on the basis of the saccharine content of the imported product
18.06	Chocolate and other food preparations containing cocoa	VL, MS (B,F, G,N)	PROCESSED FOODS CAP. Belgium, Netherlands and Germany do not allow imports of this product containing corn syrup; France maintains a percentage list.
19.01	Malt extract	VL	PROCESSED FOOD CAP
19.02	Preparations of flour, starch or malt extract of a kind used as infant food or for dietetic or culinary purposes, containing less than 50% by weight of cocoa	VL	PROCESSED FOOD CAP
19.03	Macaroni, spaghetti, and similar products	VL	PROCESSED FOOD CAP
19.04	Tapioca and sago; tapioca and sago substitutes obtained from potato or other starches	VL	PROCESSED FOOD CAP

Tariff Number	Commodity Description	Type of Restriction	Remarks
19.05	Prepared foods obtained by the swelling or roasting of cereal and cereal products	VL	PROCESSED FOODS CAP.
ex. 19.05	Popcorn, cornflakes, etc.	ST (G)	PROCESSED FOOD CAP.
19.06	Communion wafers, sealing wafers, etc.	VL	PROCESSED FOOD CAP.
19.07	Bread, ships' biscuits, and other ordinary bakers' wares	VL, MS (G)	PROCESSED FOOD CAP. Germany places a percentage limit on the amount of corn syrup permissible in baked goods.
19.08	Pastry, biscuits, cakes and other fine bakers' wares	VL, MS (G)	PROCESSED FOOD CAP. Germany places a percentage limit on the amount of corn syrup permissible in baked goods.
ex. 20.01	Gherkins in airtight containers	QR (G), HS (G)	3/ Quantitative restrictions of products under headings 20.01 and 20.02, containing added sugar, are prohibited by Council Regulation No. 689/67, effective 11/1/67.
	Other prepared fruits and vegetables in air-tight continers, except other preserved in vinegar	QR (F), MS (F)	
20.01	Vegetables and fruits, prepared or preserved by vinegar or acetic acid	QR (F), MS (F)	5/

Tariff Number		Commodity Description	Type of Restriction	Remarks
ex. 20.02		Vegetables, otherwise prepared or preserved:	MS (F)	5/
	ex.A	Mushrooms other than those grown in woods	QR(F)	
	ex.D	Asparagus with heads	QR(G)	
	ex.E	Sauerkraut in containers under 5 kg.	QR(G)	
	ex.G	Gherkins in containers under 5 kg.	QR(G), HS(G)	3/
		Early June peas	QR(G)	
		Beans	QR(G)	Imports tenders for green beans are issued after the U.S. pack is completed, causing difficulties in meeting canning specifications of Germany.
		Other vegetables, including mixed, under 5 kg., except frozen spinach or artichokes	QR(G)	
20.03		Frozen fruit with added sugar	VL, L	
ex. 20.04		Fruit, fruit peel, plants and parts of plants preserved with sugar, except ginger	VL, L	5/ Subject to sugar added levy. Import certificate required if levy fixed in advance.
ex. 20.05		Fruit purees and pastes, jams, jellies, marmalades, cooked with added sugar	VL, L, MS (I,G,N)	Italy does not permit imports of this product containing corn syrup. Germany and the Netherlands maintain a percentage limit.

Tariff Number	Commodity Description	Type of Restriction	Remarks
20.05	Fruit purees and pastes, etc., whether or not containing added sugar	QR (F)	) Quantitative restrictions on products under headings 20.03 through 20.07 containing added sugar are prohibited by Council Regulation 789/67, effective 11/1/67.
	Applesauce	QR (G)	)
	Date, dried fig, and grape pastes, whether mixed or not	QR (I)	)
ex. 20.06	Fruit otherwise preserved with or without addition of alcohol, with added sugar	VL, L	5/ Subject to sugar levy. Import certificate required if levy is fixed in advance.
20.06	Fruit otherwise prepared or preserved, etc., with or without added sugar	MS (I,N,F)	Italy and the Netherlands do not allow imports of canned fruits containing corn syrup. 5/
BI	Containing alcohol in immediate packages of net weight under 4.5 kg. except citrus fruit, apricots, pineapples, figs, fruit cocktail, fruit salad, and maraschinos	QR(G)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
20.06 B	Net weight less than 4.5 kg:	QR (G)	
	Plums	QR (G)	
	Cherries	QR (G)	
	Strawberries	QR (G)	
	Raspberries	QR (G)	
ex. 20.06 B	Other berries	QR (G)	
	Other fruit, including mixtures	QR (G)	
III	Otherwise preserved or prepared	QR (G)	
ex. 20.07	Fruit juice (including grape must) or vegetable juice, not fermented, without alcohol with added sugar	VL	PROPOSED WINE CAP. Subject to sugar added levy. 20.07 AI and BI to be placed under jurisdiction of proposed CAP.
ex. 20.07	Fruit juices, etc., whether or not containing added sugar	QR (I), MS (F, I, N, G)	5/ France, Italy, the Netherlands and Germany do not allow imports of fruit juices containing corn syrup.
A	Of a density exceeding 1.33 at 15° C.	QR (F)	
	Of a density less than 1.33 at 15° C.		

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 20.07 BIV	Of apples or pears	QR (G)	
V	Of tomatoes	QR (F)	
VII	Mixtures except of citrus and pineapple juice	QR (G)	
VIIIb	Mixtures of apples or pears	QR (G)	
21.01 ex A	Roasted chicory roots and other roasted coffee substitutes	VL	PROCESSED FOODS CAP.
B	Extracts of above		
ex. 21.06 AII	Natural active yeasts for baking	VL	PROCESSED FOODS CAP.
ex 21.07	Food preparations, nes., containing sugar, milk products, cereals or cereal products	VL, MS (F,G)	PROCESSED FOODS CAP. France does not allow imports of ice cream containing corn syrup; Germany places a percentage limit on the allowable amount.
ex. 22.02	Lemonade, flavored spa waters and other non-alcoholic beverages except juices under 20.07, containing added sugar	VL, HS (N)	Subject to sugar levy. The Netherlands prohibits imports of fruit juice drinks from the U.S. because of a general prohibition against the addition of artificial colors to such drinks.
	Beverages with a milk base	VL	

Tariff Number	Commodity Description	Type of Restriction	Remarks
22.03	Beer	MS (B,F,I,G)	Belgium and France place a percentage limit on the amount of corn syrup permissable in beer. Italy and Germany prohibit imports of beer containing corn syrup.
22.04	Grape must, partially fermented	QR (F,I)	PROCESSED FOODS CAP.
22.05	Wine of fresh grapes; grape must with fermentation arresting alcohol	QR (G,F,I)	The PROPOSED WINE CAP calls for the application of supplementary levies on imports of these products and also for import certificate requirements upon its implementation. Member States' QR's are to be abolished.
22.08	Ethyl alcohol	ST (F), QR (F)	
ex. 22.09	Other spiritious beverages containing sugar	VL	
A	Ethyl alcohol of less than 80%	QR (F)	
22.10	Vinegars and substitutes for vinegars	QR (F,G)	Implementation of the PROPOSED WINE CAP would prohibit QR's on the import of wine vinegars

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 23.02	Bran, sharps, and other residues derived from sifting, milling, or other processing of cereal grains	VL, L	GRAIN CAP.
	Other residues besides from cereal	QR (F)	
	Beet pulp and other waste of sugar manufacture	QR (G), ST (G)	
ex. 23.04	Olive oil cake	VL, L	FATS AND OILS CAP. Levy applied on the basis of the olive oil levy according to the content of the imported product.
ex. 23.07	Sweetened forage and feeds; other preparations used in animal feeding:		
	Containing cereals or similar products	VL, L	GRAIN CAP.
	Containing not less than 50% of milk powder or other dairy products	VL	DAIRY CAP.
	Certain other feed preparations not covered by the GRAIN CAP or DAIRY CAP	QR (F,G), ST (G)	

Tariff Number	Commodity Description	Type of Restriction	Remarks
24.01	Unmanufactured tobacco and tobacco refuse	QR (F), MR (G), ST (F,I)	State monopoly in France and Italy.
24.02	Manufactured tobacco, tobacco extracts and essences	QR (F), ST (F,I)	State monopoly in France and Italy. PROPOSED CAP for tobacco imposes licensing requirements on imports.
ex. 33.01	Essential citrus oils containing terpenes	QR (I)	
ex. 35.01	Unhardened casein imported for the manufacture of food and forage products	QR (G)	
35.01 A	Casein and casein derivatives	VL	PROCESSED FOODS CAP. Implementation delayed until 4/1/68.
35.05	Dextrin and dextinous glues; soluble or roasted starches, starch glue	VL	PROCESSED FOODS CAP. Implementation delayed until 4/1/68.
38.12 AI	Prepared glazings or dressings with bases of starchy substances	VL	PROCESSED FOODS CAP. Implementation delayed until 4/1/68.

Tariff Number	Commodity Desctiption	Type of Restriction	Remarks
ex[1]. 01.01	Live horses, excluding asses, mules, and hinnies	QR	
ex. 01.02	Live animals of the bovine species, excluding buffaloes	QR	
01.03	Live swine	QR	
ex. 02.01.1	Meat and offals of bovine animals, fresh, chilled, or frozen, excluding tongue and internal organs	QR	
ex. 02.01.2	Meat and offals of pigs, fresh, chilled, or frozen, excluding tongue and internal organs	QR, CI	A 10 percent duty on pork is reduced or suspended when the domestic market price exceeds its fixed price limit, and the price of imported pork is higher than the domestic price.
ex. 02.05	Unrendered pig fat, free of lean meat, fresh, chilled, frozen, salted in brine, dried or smoked	QR	
02.06.1	Ham and bacon	QR, CI	A 10 percent duty on pork is reduced or suspended when the domestic market price exceeds its fixed price limit and the price of imported pork is higher than the domestic price.

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 02.06.2	Meat and edible offals of bovine animals and pigs, salted in brine, dried or smoked	QR, CI	A 10 percent duty on pork is reduced or suspended when the domestic market price exceeds its fixed price limit and the price of imported pork is higher than the domestic price.
ex. 04.01	Sterilized milk and cream, and other cream with fatty content, 13 percent or more fresh, not concentrated or sweetened	QR	
ex. 04.02	Milk and cream, preserved, concentrated, or sweetened (excluding sugared, condensed wholemilk; sugared, condensed skimmed milk powder; wholemilk powder, buttermilk powder; and whey powder	QR, ST	The Livestock Industry Promotion Corporation is the sole importer of sugared, condensed wholemilk; sugared, condensed skimmed milk; skimmed milk powder; wholemilk powder; buttermilk powder, and whey powder. The Corporation imports on a non-discriminatory basis to keep domestic prices from going above the guarantee price by more than a given amount. These products are not covered by the quanti tative restriction.
04.03	Butter	ST	The Livestock Industry Promotion Corporation is the sole importer of butter. It imports on a non-discriminatory basis to keep domestic prices from going above the guarantee price by more than a given amount.

Tariff Number	Commodity Description	Type of Restriction	Remarks
04.04.1	Processed cheese	QR	
ex. 04.04.2	Other cheese, excluding natural cheese and curd	QR	
07.05.1	Small red beans	QR	
ex. 07.05.2	Broad beans and peas, excluding seeds for growing vegetables	QR	
ex. 07.05.4	Other dried leguminous vegetables excluding seeds for growing vegetables	QR	
ex. 07.06	Manioc, sales, Jerusalem artichokes, sweet potatoes excluding fresh sweet potatoes, and other similar roots and tubers with high starch or inulin content, fresh or dried, whole or sliced; sago pith	QR	
ex. 08.01.3	Dates, dried	QR	
ex. 08.02.1	Limes, fresh	QR	
ex. 08.02.2	Oranges, fresh	QR	
ex. 08.02.3	Grapefruit, fresh	QR	
ex. 08.02.4	Tangerines, fresh	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 08.04.1	Grapes (vitas vinifera), fresh	QR	
ex. 08.06	Apples, fresh	QR	
ex. 08.09	Papayas	HS	Imports are prohibited.
ex. 08.10	Pineapples, whether or not cooked, preserved by freezing and not containing added sugar	QR	
ex. 08.11.2	Oranges, provisionally preserved by sulphur dioxide gas or other preservative gases	QR	
ex. 08.11.3	Limes, grapefruit, tangerines, grapes and apples, provisionally preserved by sulphur dioxide gas or other preservative gases	QR	
ex. 09.01.12	Other coffee, roasted, excluding such in containers less than 400 grams net	QR	
09.02.11	Black tea for retail sale	QR	
09.02.13	Other black tea	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
10.01	Wheat and meslin	ST	The Government issues import permits to private traders, who must sell to the Government. The Government selling prices of imported wheat is somewhat higher than its price for home-grown wheat because the imported wheat is higher quality.
10.03	Barley	ST	The Government issues import permits to private traders, who must sell to the Government.
ex. 10.05	Corn, unmilled, for industrial use	QR	Imports within the quota, 520,500 m.t. in 1967-8, enter at a 10% duty; imports over the quota enter at a 25% duty. For 1968-9, imports above an estimated 899,000 m.t. quota might fact a specific duty of ¥8.60 per kg., amounting to about 40% ad valorem.
10.06	Rice	ST	The Government issues import permits to private traders, who must sell to the Government. The Government selling price for imported rice is generally lower than that for home-grown rice because the imported rice is lower quality.

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 10.07.3	Kao-Liang and other grain sorghums, excluding such purchased by the Government and such to be used as material for compound feeds under the supervision of the customs	QR	Most imports in this category are not covered by the quantitative restriction.
11.01.1	Wheat flour	QR	
ex. 11.01.2	Rice flour, barley flour (including naked barley flour) and flours of Kao-Liang and other grain sorghums	QR	
11.02.1	Groats and meal of wheat and rice, excluding germs thereof; other worked wheat and rice, except husked, glazed, polished or broken rice, excluding germs thereof	QR	
11.02.2	Groats and meal of barley (including naked barley) and Kao-Liang and other grain sorghums; other worked barley (including naked barley), and Kao-Liang and other grain sorghums	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
11.04	Fruit flours	QR	
11.05	Flour, meal, and flakes of potato	QR	
11.06	Flour and meal of sago and of manioc, arrowroot, salep, and other roots and tubers	QR	
11.07	Malt, roasted or not	QR	
11.08	Starches, inulin	QR	
11.09	Gluten and gluten flour, roasted or not	QR	
ex. 12.01.1	Soybeans	BA, S	Bilateral agreements with Communist China
12.01.2	Groundnuts	QR	
ex. 14.05.4	Dates, denatured	QR	
15.07.10	Soybean oil	QR	
15.07.20	Groundnut oil	QR	
15.07.30	Rapeseed oil and mustard seed oil	QR	
ex. 15.07.50	Cottonseed oil, excluding such to be used for manufacturing	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 15.07.14	Corn oil, safflowerseed oil and sunflowerseed oil	QR	
15.13.10	Margarine	QR	
ex. 15.13.20	Shortening	QR	
16.01	Sausages and the like of meat, meat offal, or animal blood	QR	
ex. 16.02.2	Other prepared or preserved meat and offals of bovine animals or pigs; other preparations chiefly consisting of meat and offals of bovine animals and pigs	QR	
17.01.100	Rock candy, cube sugar, loaf sugar, and similar sugar	QR	
17.01.220	Other beet and cane sugar, refined	QR	
17.02.100	Grape sugar, not containing added sugar	QR	
17.02.200	Malt sugar, not containing added sugar	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 17.02.300	Milk sugar, not containing added sugar, less than 90 percent pure milk sugar content	QR	
17.02.410	Rock candy, cube sugar, loaf sugar, and similar sugar	QR	
17.02.420B	Other sugar	QR	
17.02.500	Sugar syrup	QR	
17.02.600	Caramel	QR	
17.02.700	Artificial honey	QR	
17.02.800	Sugars and syrups, other	QR	
17.03.000	Molasses	QR	
17.04.100	Chewing gum	QR	
17.04.220	Other sugar confectionary excluding medicine and cough drops	QR	
17.05	Flavored or colored sugars, syrups, and molasses, but not including fruit juices containing added sugar in any proportion	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
18.06.100	Chocolate confectionary	QR	
ex. 18.06.210	Other food preparations containing cocoa and added sugar, in powder, plate, or lump	QR	
ex. 19.02	Cake mixes	QR	
ex. 19.03	Macaroni, spaghetti, vermicelli, and noodles	QR	
19.04	Tapioca and sago, and substitutes obtained from potato and other starches	QR	
ex. 19.05	Prepared food obtained by the swelling or roasting of cereals or cereal products (puffed rice, corn flakes, etc.), excluding preparations other than those of rice, wheat, barley (including naked barley) and corn flakes	QR	
ex. 19.08.1	Cookies, biscuits, and crackers, containing added sugar	QR	
ex. 19.08.2	Cookies, biscuits, and crackers, other	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
20.02.210	Tomato puree and tomato paste	QR	
ex. 20.02.220	Mashed potatoes and potato flakes	QR	
ex. 20.03.000	Pineapples, preserved by freezing, containing added sugar	QR	
ex. 20.05.000	Fruit puree and fruit pastes	QR	
20.06.110	Pineapples, containing added sugar or spirit	QR	
ex. 20.06.120	Fruit pulps containing added sugar or spirit	QR	
20.06.210	Pineapples, other	QR	
ex. 20.06.220	Other fruit pulps and roasted groundnuts	QR	
20.07.110	Fruit juices, containing added sugar	QR	
ex. 20.07.120	Other fruit juices, excluding sloe bases	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 20.07.200	Tomato juice, the dry weight content of which is less than 7 percent	QR	
21.04.110	Tomato ketchup and tomato sauce	QR	
21.07.100	Food preparations containing added sugar, excluding rations, peanut butter, and Korean ginseng tea	QR	
ex. 21.07.210	Bases for beverages, non-alcoholic, excluding Korean ginseng tea	QR	
ex. 21.07.220	Ice cream powder, prepared milk powder for infants, and other preparations chiefly consisting of milk; food preparations of seaweed; "mochi" (rice cake), cooked rice, roasted rice flours, enriched rice with vitamin and other similar food preparations of rice, wheat, and barley (including naked barley)	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 22.02	Lemonade, flavored spa waters, flavored aerated waters, and other non-alcoholic beverages, containing added fruit juices not including fruit and vegetable juices falling within heading 20.07	QR	
22.05	Wine of fresh grapes; grape must with fermentation arrested by the addition of alcohol	QR	
22.06	Vermouths and other wines of fresh grapes flavored with aromatic extracts	QR	
22.09.120	Brandy, including cognac	QR	
22.09.210	Liquers, excluding elixer Korean ginseng	QR	
ex. 23.03	Residues of starch manufacture from manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes and other similar roots and tubers, or sago	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
23.04-1	Oilcake and other residues resulting from the extraction of soybean oil	QR, ST	
ex. 23.04-2	Oilcake and other residues resulting from the extraction of rapeseed oil or mustard seed oil	QR	
ex. 23.04-2	Compound feeds	QR	
24.01	Unmanufactured tobacco	ST	
24.02	Manufactured tobacco	ST	The Japan Monopoly Corporation has the sole right to produce manufactured tobacco. Only the corporation or an individual entrusted by the corporation can import leaf or manufactured tobacco. Leaf tobacco is imported chiefly to upgrade domestic leaf in their blends for the manufacture of their better quality American type blend cigarettes. When an individual imports manufactured tobacco for his personal use, with the corporation's permission, a duty of 355 percent (200 percent for cigars) is levied on the amount in excess of a certain quantity. The amount collected is close to the incidence in the case of manufactured tobacco imported and sold by the corporation.

Tariff Number	Commodity Description	Type of Restriction	Remarks
ex. 33.01.130	Peppermint oil, excluding peppermint oil of mitcham type, and crude peppermint oil	QR	
ex. 33.04.100	Fruit flavors of an alcoholic strength of 10 degrees or higher, containing fruit juices	QR	
ex. 33.04.200	Other fruit flavors containing fruit juices	QR	
35.05	Dextrins and dextrin glues soluble or roasted starches; and starch glues	QR	

Tariff Number	Commodity Description	Type of Restriction	Remarks
01.01	Live horses, asses, mules, and hinnies	HS	
01.02	Live animals of the bovine species	HS	
01.03	Live swine	HS	
01.04	Live sheep and goats	HS	
01.05	Live poultry	HS	
01.06	Other live animals	HS	
02.01	Meat and offals of bovine animals, lambs, sheep, goats, swine, horses, asses, mules, and hinnies	HS	
02.02	Dead poultry	HS	
02.03	Poultry liver, fresh, chilled, frozen, salted, or in brine	HS	
02.04	Other meat and edible offals, fresh, chilled or frozen	HS	
02.05	Unrendered pig fat; unrendered poultry fat	HS	
02.06	Smoked and salted pork and other meats	HS	