

Australia/New Zealand consumers are important customers who purchased over \$746 million worth of American products in 1966.

U.S. imports of Australia/New Zealand wool, lead and zinc are not expected to increase and become a threat to American producers.

The imports of Australia/New Zealand meat products are not in competition with the American beef products.

ECONOMIC IMPLICATIONS

The introduction of protectionist legislation will affect U.S. domestic prices, the terms of trade and the balance of payments.

U.S. domestic prices: Consumer price levels are dependent on the relationship between quantity demanded of given product and the amount supplied. When the two are in equilibrium, the market price is established.

Market demand for a product is a function of buyer preferences, income and the price of substitute products. Supply is viewed in the cost of production and the prices offered for the product. If either of the variables (demand or supply) is shifted, a change in the market price will occur.

The introduction of protective legislation affects the supply schedule offered to U.S. consumers because alternative sources are artificially limited. This creates an imbalance as the same quantities are demanded, but the quantity offered by domestic suppliers will not increase at the existing price level. To induce sufficient supplies, the market price is raised and the domestic supplier will then offer more products. At this point a shift in supply occurs and the imbalance between demand and supply is corrected.

The equilibrium, however, is achieved at the expense of the consumer and the net result is inflation and higher market prices to the American public.

Terms of trade: The imposition of quotas will affect the relationship between a nation's exports and imports because the reciprocal demand between trading nations is reduced. This occurs because the ability of the importing nation is directly related to its ability to earn foreign exchange.

Therefore, to increase U.S. exports we must allow other nations to earn monies, which will, in turn, be available to purchase American goods and services.

Balance of Payments: A national imbalance of payments occurs when a nation is importing more goods and services than it is exporting. The net result of this disequilibrium is a dissipation of a country's international reserves, i.e., gold, foreign deposits, drawing rights against the International Monetary Funds, etc.

One of the classic means of correcting a fundamental imbalance is to increase the exports. This can be achieved only if the customer (importing nation) has the foreign exchange to purchase the exports. Thus, if the quotas are introduced, the customer (importing country) will not have sufficient funds to increase imports from the nation with a balance of payments problem. Therefore, Protective Quota Legislation will be a negative influence on export efforts and is a complete contradiction of the U.S. policy promulgated at the recent GATT negotiations.

UNITED STATES/AUSTRALIA/NEW ZEALAND TRADE

An examination of the current U.S.-Australia/New Zealand trade and future trade projections will add perspective to proposed import quota legislation and provide specific data to reinforce the theoretical arguments advanced in the first section of this submission.

U.S. Exports: American products have become a major source of Australia/New Zealand imports. Specifically, this is illustrated by Exhibit "A" which shows a percentage share of the Australian market and a percentage share of the New Zealand market. During the 1959/1966 period, the value has risen from \$313 million to \$746 million, or an increase of 138%. In addition to the commercial trade, Australian defense import expenditures are expected to increase 65% in 1967/1968. The cost of the American military hardware will be over \$500 million during the next decade and make Australia the third largest purchaser of U.S. defense equipment.

Turning to the future, Farrell Lines and the Arthur D. Little Company prepared a preliminary trade forecast for cargoes carried by our vessels.

For the American-export/Australian-import moving through the United States Atlantic and Gulf ports, we found the estimated annual compound growth pattern to range up to 11.5%. The accuracy of this forecast is borne out by the relationship between predicted and actual data, as illustrated in Exhibits "E" and "B".