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 PROPOSALS

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CONTENTS

SUBJECT HEADINGS

WRITTEN COMMUNICATION SUBMITTED BY GOVERNMENT OFFICIAL

ORAL STATEMENTS BY GOVERNMENT OFFICIALS

STATEMENTS OF PUBLIC WITNESSES

Page

MATERIAL SUBMITTED FOR THE RECORD

GOVERNMENT OFFICIALS

95-159 O - 68 - pt. 7 - 3

FOREIGN TRADE AND TARIFF PROPOSALS

FRIDAY, JUNE 21, 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. James A. Burke, presiding.

Mr. BURKE. Our first witness this morning is the Honorable Richard White, our colleague from Texas. Welcome sir, you are recognized.

STATEMENT OF HON. RICHARD C. WHITE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

IN BEHALF OF H.R. 2025—TO RESTORE TOURIST EXEMPTIONS

Mr. WHITE. Mr. Speaker, and members of the committee, I am Congressman Richard C. White, representing the 16th District of Texas. Of the 12 counties of my district, six have a common border with the Republic of Mexico. My home city, El Paso, is the largest city on the border, and its sister city, Cuidad Juarez, is Mexico's largest border city. Our port of entry, at El Paso, is one of the busiest in the Nation, with total crossings, northbound and southbound numbering more than 32 million persons a year.

This commerce across our international border is in every way a two-way street. Prosperity in one country helps to develop prosperity in another, and restrictions affecting commerce in either country will certainly affect its neighbors. I know this committee is concerned with the balance-of-payments problem; we all are. It was to assist our balance of payments that Public Law 62 was enacted by the 89th Congress. This law reduced from $200 retail value to $100 retail value the amount of tourist goods which U.S. residents may bring back from a foreign country without payment of duty. It also reduced from 1 wine gallon to 1 quart, the amount of alcoholic beverages that may be so imported, duty free.

In the overall picture, this may assist our balance of payments. But, in border areas such as mine, this restriction has, instead, had an adverse effect. It has been estimated, for example, that 70 percent of all the tourist dollars expended in Cuidad Juarez, Mexico, come back across the border to be spent in the United States. When the amount of American tourist dollars decreased, the effect on business in my district was felt immediately. What is more, such actions could well lead to economic reprisals. Indeed, there has been some talk of a boycott in Mexico on goods from the United States, although responsible elements in Mexico have tried to discourage such talk. They realize, as we do, that border commerce is a two-way street, and we should encourage it, not restrict it.

This return of the American tourist dollar is but one aspect of our busy two-way tourist commerce across our border. Total border transactions in 1966 showed $521 million spent in the United States by residents of Mexico, and $382 million spent in Mexico by residents of the United States.

Overall, Mexico spent more than $1,024 million dollars in this country in 1966—64 percent of its total imports. Total exports by Mexico to the United States that year were $648 million. This is a balance of payments in our favor of $376 million.

As a billion dollar customer of the United States, Mexico deserves some special treatment.

The administration recognized the special conditions that pertain to our neighboring countries when it recommended that Western Hemisphere nations be exempted from the futher restriction on tourist imports proposed this year. When your committee favorably reported H.R. 16241 last March, you wisely decide to exempt countries contiguous to the United States, when you voted to reduce duty-free imports still further, from $100 to $10.

You took this action, I believe, not simply as a good will gesture to our good neighbors, although that is important. You also felt, and correctly, that further reductions in tourist imports from our neighbors would further reduce the purchases by Mexico and Canada in the United States.

I am the author of a bill, H.R. 2025, referred to your committee, which would take still another step to improve the two-way commerce with our neighboring countries. My bill would restore to the 1965 limits of $200 retail value of tourist goods, and 1 wine-gallon of alcoholic beverages, the amount of duty-free purchases which may be imported from a 5-mile area adjacent to our borders.

Passage of this bill would, I believe, contribute materially to the campaign which this Nation is conducting to increase the number of visitors from other nations to this country. Special rates in both fares and accommodations have been offered to bring visitors from abroad to this country.

I submit that visitors from our good neighbors to the north and south are just as important, and likely to spend a great deal more money. We can encourage their visits by lowering the restrictions that limit our visits to them.

Mr. Chairman, and members of the committee, I respectfully ask that you consider the special circumstances of our border areas and do whatever you can to keep our two-way border trade active.

Mr. Burke. Thank you, Mr. White, for sharing your thoughts with us.

Mr. White. It has been a pleasure, and thank you, Mr. Chairman.

Mr. Burke. Our next witness is our colleague from Pennsylvania, Mr. Eshleman. We appreciate your being with us this morning and you are recognized.

STATEMENT OF HON. EDWIN D. ESHLEMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. ESHLEMAN. I have introduced during the 90th Congress two bills relating to cigar tobacco tariff rates, H.R. 7982 and H.R. 13993. Both bills are designed to raise the tobacco price paid to the domestic producer who is being priced out of the marketplace by the importation of foreign tobacco commodities.

H.R. 7982 is designed to levy a 20-percent increase, or an average hike of 4 cents per pound, in cigar filler tobacco and scrap tobacco tariff rates. These are the types of tobacco that compete directly with the Pennsylvania type 41 Seedleaf tobacco grown in my district. The impact of the competition of increased imports has been such that the domestic farmer has seen his price rapidly depressed to the point that it is almost not advantageous to grow a tobacco crop. The extent of the competition is shown by the fact that nearly 50 percent of the cigar filler tobacco consumed in this country is imported. Certainly, part of the explanation of the adverse competition is the lower price availability of the foreign tobacco. It is offered, even after tariff, at lower prices than the production costs of the domestic tobacco grower. Actually, there is a great deal of feeling that only the quality of the American-grown product has kept it at all competitive. However, consistently low prices will tend to cut down attempts toward quality production and leave even a greater market for the foreign products. The 20-percent increase in the tariff rate would have the effect of immediately stimulating the prices of our own tobacco and thereby make the present uneven competition in the marketplace far more balanced.

H.R. 13993 is intended to aid the domestic tobacco grower pricewise too, but relates specifically to a need for tariff revision brought on by new technology in the cigar manufacturing industry. The present regulations do not reflect the complete revision of the cigar industry in recent years, and although the tariff law as it was established was equitable in its time, some new manufacturing innovations have served to increase the desirability for usage of foreign tobacco over domestic products.

Stemmed filler tobacco, that is tobacco with the stem removed, has an import duty of 23 cents per pound. Unstemmed filler tobacco is imported at a rate of 16.1 cents per pound. The stems, themselves, enter this country free, if they are removed before duty payment. These rates reflect the cigarmaking process of the past when scrap tobacco and stems were known as an inferior grade of tobacco and not included in the finished cigars.

With the advent of mechanization in the cigar industry, the former inferior grades could be included in the final product. The entire tobacco leaf is now cut into small pieces and manufactured into cigars. This, of course, means that stems can now be used in final production.

A unique feature of tobacco importation leads to the present problem confronting the domestic farmer. Section 1562, title 19, United States Code, provides in part that merchandise may be manipulated in bonded warehouses. The stemming of tobacco is considered to be production and therefore permissible in a manipulation warehouse.

It should be further noted that neither section 1562 nor the regulations issued thereunder contain provisions restricting the use made of products withdrawn from the warehouse for consumption. Therefore, the subsequent processing and use made of the tobacco stems in the manufacture of cigars is not contrary to any existing tariff regulation. Since the duty is paid after the initial manufacturing takes place, it has become advantageous for the manufacturer to pay for stemmed tobacco rather than pay for the whole weight of the leaf as it is received into the bonded warehouse. The stems are then released separately and free of duty.

The stems are then taken supposedly for use as fertilizer, and so forth. In times past they were so used, and were made available at very nominal prices. However, today practically none of this "waste" is offered for resale. There is good reason to believe that this tobacco may be finding its way back into the cigarmaking process and made fit for filler with the new technology. Naturally, since the stem represents a good deal of the tobacco leaf's weight, and because domestic producers are paid for the full leaf weight of their tobacco, the duty-free foreign stems cause a depression in domestic prices.

H.R. 13993 would alleviate this problem by placing a levy on tobacco stems, thereby eliminating the present loophole. Manufacturers would be forced to pay either for the full weight of the leaf at 16.1 cents per pound or pay for the weight without stems at 23 cents per pound and not get the bonus of a free stem. The result of the action would be to make foreign tobacco compete evenly with that which is grown in the United States.

Mr. BURKE. Are there any questions? If not, then thank you Mr. Eshleman, for bringing your views to us this morning.

Mr. ESHLEMAN. I thank you, Mr. Chairman, for giving me this opportunity to be heard.

Mr. BURKE. Our next witness is Mr. Richard A. Tilden. Is Mr. Tilden here?

You are allotted 20 minutes, Mr. Tilden.

STATEMENT OF RICHARD A. TILDEN, CLOTHESPIN & VENEER PRODUCTS ASSOCIATION AND SLIDE FASTENER ASSOCIATION

Mr. TILDEN. Thank you, Mr. Chairman.

Mr. BURKE. Will you identify yourself for the record.

Mr. TILDEN. Mr. Chairman, members of the committee, my name is Richard A. Tilden. I am an attorney with offices at 441 Lexington Avenue in New York City. I appear on behalf of most of the domestic producers of clothespins, slide fasteners, and certain flat veneer products.

Since the time is limited I will try to summarize as quickly as I can. I have filed a written statement which I will appreciate being incorporated in the record.

Mr. BURKE. Without objection it will be included.

Mr. TILDEN. Throughout the history of trade agreement legislation the Congress has consistently affirmed and reaffirmed its determination that the program be administered in such manner as to protect the interests of domestic industries. In order to carry out this determination Congress in 1951 established the peril point and escape clause procedures, designed to protect domestic industry from serious injury resulting from increased imports encouraged by trade agreement concessions.

In 1962 the administration asked Congress to reverse this policy and to authorize the President to sacrifice such domestic industries as he might determine should be sacrificed in the interests of the overall national economy. Administration spokesmen—the Secretaries of Commerce and Labor—then acknowledged that the proposal would deprive 90,000 workers of their jobs and would cause 800 firms to go out of business during the ensuing 5 years.

The sacrifice was "justified" by the administration on the ground that it would provide jobs for an even larger number of other workers. Congress was assured that these 800 firms and 90,000 workers would be assisted under the terms of the proposal.

The Congress, in obvious recognition of its obligation not to sacrifice any domestic industry for the benefit of any other industry or for the benefit of the national economy as a whole, without providing adequate and reasonable compensation to the industry sacrificed, insisted upon adjustment assistance provisions which it felt would provide adequate and reasonable assistance to workers, firms, and industries injured or sacrificed by the exercise of the tariff-cutting powers included in the proposal.

The proposal was enacted as the Trade Expansion Act of 1962, and these powers have been exercised by cutting the rates of duty on most industrial items by 50 percent.

The basic purpose of the statement which I have filed with the committee is to demonstrate that the peril point and escape clause procedures which were in effect prior to 1962 were ineffective; that the adjustment assistance procedure which has been in effect since 1962 is virtually worthless; third, that action by Congress is essential if we are to avoid imposing unnecessary and unfair hardships on countless workers, businesses, and small towns; and, fourth, that the proposed changes in the adjustment assistance procedure incorporated in the President's message to the Congress dated May 28, 1968, are completely inadequate.

I will leave my objections to the peril point and escape clause provisions for the written statement and will concentrate for a few moments, if I may, on the adjustment assistance provisions.

This committee is fully informed as to the extent of the assistance which has been rendered to workers, firms, and industries under this procedure during the nearly 6 years it has been in effect. I understand the current score is 19 applications and 19 denials of assistance. My written statement contains a detailed discussion of the reasons for its inadequacy, which may be of assistance to this committee in evaluating the changes recommended in the President's message of May 28, 1968, wherein he acknowledged that the assistance program has not been effective.

In brief, the statement points out the disastrous effects of the closing of plants located in small towns and uses the town of West Paris, Maine, in which the Penley Bros. clothespin plant is located to illustrate the inadequacy of the adjustment assistance program as it is proposed to be amended.

It points out that the town of West Paris could not possibly survive the closing of the Penley Bros. plant and would become another ghost town.

To be sure, the Trade Expansion Act of 1962 provides for assistance to Penley Bros. However, in order for Penley Bros. to qualify for such assistance it would have to get the President to determine its eligibility (no easy task even with the proposed changes), and then would have to present to the President a proposal for its economic adjustment.

The machinery and equipment in the Penley Bros. plant is designed solely for the production of clothespins. It would not be used for anything else and would have to be junked. This would leave the company with an empty shell of a building, and it would have to start from scratch. The only advantage of its location is its proximity to wood supplies.

Even if it could finance with Government loans the installation of new machinery, designed to produce other wood products, its chances of success are practically nil.

The production of other wood products is highly competitive and existing manufacturers are already in trouble as a result of increased import competition.

It could, of course, at the taxpayers' risk, tool up for the production of entirely different products, using raw materials transported from another area of the country. In so doing it would be embarking on a highly risky venture, entering another market in competition with existing firms which are probably located closer to the source of supply of necessary raw materials and which have established selling organizations and contacts with the market.

Aside from the difficulty of presenting a satisfactory proposal for its economic adjustment, Penley Bros. would be expected to enter into partnership with the Federal Government. Any loans or other assistance would be subject to such "terms and conditions" as the President deems "appropriate."

Such terms and conditions would probably include a voice in management, directions as to the specific products to be manufactured, and as to methods of distribution, prices, and so forth.

Individual stockholders of the firm could be required to endorse notes evidencing any loans made to the firm and would remain liable if the firm failed. In effect the firm would become a virtual ward of the Government. The President has proposed no changes which would eliminate any of these problems.

Under these circumstances it is highly probable that Penley Bros. would cease to exist, and would not even apply for assistance under the act.

The next question is what happens to Penley Bros. employees? The act as it is proposed to be amended "assures" these workers of assistance, provided they can prove to the President (formerly the Tariff Commission) that they lost their jobs as a result of increased imports.

In the absence of an application by the industry or by Penley Bros. for a determination that the company is eligible for assistance, the workers would be on their own, and would face an almost insurmountable task.

Persuading the Tariff Commission to make a determination as to injury resulting from increased imports is not easy, even with the combined efforts of an entire industry. Persuading the President under the proposed new act can be equally difficult. It is inconceivable that individual workers, even though represented by a union, could assemble the voluminous facts and figures necessary to enable the President with the advice of the Tariff Commission under the proposed act to find that increased imports of a particular commodity, and I quote from the proposed bill, "have been a substantial cause of unemployment or underemployment or a threat thereof of a significant number or proportion of workers."

Even assuming that such a determination is made as to Penley Bros., the individual workers face many other problems. In the first place the workers would have to accept "suitable training" approved by the Secretary of Labor. This could be training in a field of no interest to the individual workers, for a job in an entirely different part of the country. If the worker refuses the training "without good cause" he would not be eligible for any assistance.

Again assuming that the Penley Bros. worker could establish his eligibility and was willing to accept the conditions to assistance, he still would face serious problems. If he owned his home in West Paris he probably could not sell it.

He would receive a maximum of 65 percent of his average weekly wage or 65 percent of the average weekly manufacturing wage, whichever is less, plus an inadequate allowance for moving expenses for his family. Reestablishment of a family in a new community, with little or no capital to work with, and with greatly curtailed income pending the time the worker is able to find a new job, is not simple.

Finally, the question arises as to what compensation is offered to the two of West Paris itself, the merchants, service establishments, truckers, farmers, and so forth who have depended on the continued operation of Penley Bros., and the many others who would be indirectly injured by the sacrifice of Penley Bros. in order to obtain a concession from the European Common Market which would provide employment in Cincinnati, or elsewhere. The answer, of course, is none.

While it may be argued that Penley Bros. is an isolated example, and possibly an extreme one, and that the continued existence of West Paris is unimportant to the national economy, it is suggested that there are literally thousands of small towns throughout the United States which are dependent upon small plants.

One of the basic features of the American way of life has been the operation of small businesses in small communities, providing employment to residents of such communities. The inadequacy of the present law to provide needed protection and assistance will inevitably result in unnecessary and unfair hardships on countless workers, businesses, and small towns unless remedial legislation is enacted.

My written statement contains a detailed discussion of the impact of imports on the clothespin and slide fastener industries to illustrate this danger.

It is sufficient in this oral presentation to merely point out that slide fastener imports have increased in the last 5 years from about 1 million units to a current annual rate of more than 45 million and that clothespin imports currently are supplying 38 percent of the domestic market as compared with 23 percent in 1957 when the President agreed with the Tariff Commission that the industry was being seriously injured by imports.

From the facts included in my written statement I believe the committee will conclude that domestic producers of clothespins, flat veneer products, and slide fasteners have already lost a substantial part of their domestic markets as a result of duty reductions under the trade agreement program. With the further reductions provided for under the GATT agreement, it is anticipated that increased imports will force a drastic curtailment of domestic production, the layoff of American workers, and closing of plants.

There is presently a wide price differential favoring imports, which gap will be widened by the projected duty reductions, encouraging more and more users to switch to imports.

The domestic industries believe that Congress did not intend that the trade agreement program would result in the sacrifice of American industry and workers in order to make a gift of the American market to foreign producers.

They believe that the program was intended as a means of making all markets available to all producers on an equal basis, without artificial restraints which give one group of producers a competitive advantage over others. Tariff restrictions should be designed to enable both foreign and domestic producers to compete on an equal basis for the domestic market as well as for foreign markets.

Domestic producers fully recognize the importance to the national economy of entereing into trade agreements under which foreign markets are made "available" to the products of American labor, and the necessity of making compensatory concessions to foreign countries under which the American market will be made "available" to products of foreign labor.

However, they submit that making a market "available" merely means to enable both foreign and domestic producers to compete for it on an equal basis, without artificial restraints which give one group a competitive advantage over the other.

It is inevitable that the negotiation of trade agreements will result in equities which will seriously injure specific domestic industries. This does not mean that the trade agreements should not be negotiated.

It does mean that effective means of correcting such inequities must be provided. If a single American industry or even a single business or worker, is to be sacrificed to obtain concessions for the benefit of other businesses or workers, an effective means of compensating such sacrificed industry business or worker should be devised.

The taking of a business or of a worker's job to benefit other businesses or workers in the aid of the overall national economy, in my opinion, cannot be distinguished from the taking of real property for an interstate highway.

In the latter case, the Constitution requires that the owner be paid "just compensation." A man's business or job may be equally as valuable to him as his real property and when his business or job is taken for the benefit of others or in order to aid the national economy, he should be compensated.

I doubt that Congress is prepared to take such a radical step in order to provide foreign markets for specific businesses. However, if it does permit the President to do so by sacrificing other individual businesses, it has a moral, if not a legal obligation, to compensate the sacrificed businesses and the workers displaced as result.

For the reasons I have stated, the changes in the adjustment assistance provisions of the law proposed by the President will not be effective. Until the Congress is prepared to enact laws providing for such compensation, it is submitted that effective measures for preventing any such sacrifices must be enacted.

This can be accomplished by amending the Trade Expansion Act of 1962 so as to reestablish the peril point and escape clause procedures contained in the former law, but with mandatory provisions under which the President would be precluded from granting any concession below the peril point and would be required to proclaim such incleased duties, or to impose such import quotas or other restrictions, as may be recommended by the Tariff Commission in escape clause actions.

Thank you, Mr. Chairman. That completes my statement.

(Mr. Tilden's prepared statement follows:)

STATEMENT OF RICHARD A. TILDEN, ON BEHALF OF DOMESTIC PRODUCERS OF SLIDE FASTENERS, AND PARTS THEREOF, WOODEN SPRING CLOTHESPINS, WOODEN STANDARD CLOTHESPINS, CERTAIN FLAT VENEER PRODUCTS

SUMMARY

This statement is designed to demonstrate through specific examples taken from the experiences of the slide fastener, clothespin and flat veneer products industries in seeking adequate tariff protection, that the "peril point" and "escape clause" procedures in effect prior to 1962, and the "adjustment assistance" procedure which has been in effect since 1962, have been ineffective to avoid or remedy injury to domestic industries resulting from trade agreement concessions, that remedial legislation is essential to avoid imposing unnecessary and unfair hardships on countless workers, businesses and small communities, and that the changes in the "adjustment assistance" procedure proposed by the President will not be effective.

While it is recognized that the provision of foreign markets for American producers, through tariff concessions, will aid the national economy, the statement contends that if a single American industry, or even a single business or worker, is to be sacrificed to obtain such concessions, an effective means of compensating such sacrificed industry, business or worker should be devised. The taking of a business or of a worker's job to benefit other businesses or workers in aid of the over-all national economy, cannot be distinguished from the taking of real property for use as an interstate highway. In the latter case, the Constitution requires that the owner receive "just compensation". A man's business or job is just as important to him as his real property and when his business or job is taken for the benefit of others or in order to aid the national economy, he should be compensated.

Recommendations are made as to specific legislation needed to prevent such sacrifices until such time as Congress is prepared to provide compensation to businesses and workers sacrificed under the trade agreement program.

PURPOSE OF STATEMENT

This statement is presented on behalf of all of the domestic producers of wooden spring and standard clothespins, the domestic producers of more than 80 per cent of slide fasteners and parts thereof and the domestic producers of more than 90 per cent of such flat veneer items as wooden spoons and forks, ice cream sticks, toothpicks, tongue depressors, et cetera, manufactured in the United States. The names, addresses and factory locations of these domestic producers appear on "Appendix A", attached to this statement.

Throughout the history of trade agreement legislation the Congress has consistently affirmed and reaffirmed its determination that the program be administered in such manner as to protect the interests of domestic industries. In order to carry out this determination Congress in 1951 established the peril point and escape clause procedures, designed to protect domestic industry from serious injury resulting from increased imports encouraged by trade agreement concessions.

This policy was an acknowledgment of a fundamental principle of our form of government and our Constitution—that property shall not be taken for public use without just compensation. There is little distinction between taking a person's real property for use as an interstate highway, and taking a person's job or business away from him in order to provide job opportunities for others, or to provide a market for the goods manufactured by others.

In 1962 the Administration asked Congress to reverse this policy and to authorize the President to sacrifice such domestic industries as he might determine should be sacrificed in the interests of the over-all national welfare. Administration spokesmen—the Secretaries of Commerce and Labor—acknowledged that the proposal would deprive 90,000 workers of their jobs and would cause 800 firms to go out of business during the next five years. The sacrifice was "justified" by the Administration on the ground that it would provide jobs for an even larger number of other workers. Congress was assured that these 800 firms and 90,000 workers would be "assisted" under the terms of the proposal.

The Congress, in obvious recognition of its obligation not to sacrifice any domestic industry for the benefit of any other industry or for the benefit of the national economy as a whole, without providing adequate and reasonable compensation to the industry sacrificed, insisted upon adjustment assistance provisions which it felt would provide adequate and reasonable assistance to workers, firms and industries injured or sacrificed by the exercise of the tariff-cutting powers included in the proposal.

The proposal was enacted as the Trade Expansion Act of 1962, and these powers have been exercised by cutting the rates of duty on most industrial items by 50%.

The purpose of this statement is to demonstrate to this Committee:

1. that the "peril point" procedure in effect prior to 1962 was ineffective to avoid injury to domestic industries,
2. that the "escape clause" procedure in effect prior to 1962 was ineffective to remedy injuries to domestic industries resulting from trade agreements,
3. that the "adjustment assistance" procedure which has been in effect since 1962 is virtually worthless in providing necessary assistance to workers, firms and industries which have been injured in past trade agreements and which will be further injured, if not destroyed, by the reduced rates of duty being put into effect under the GATT agreement,
4. that action by Congress is essential if we are to avoid imposing unnecessary and unfair hardships on countless workers, businesses and small towns, and
5. that the proposed changes in the "adjustment assistance" procedure incorporated in the President's message to the Congress dated May 28, 1968 are completely inadequate.

PERIL POINT PROCEDURE

As the Committee well knows, the basic purpose of the peril point procedure was to provide advance protection to domestic industries against the granting of concessions which would, in the opinion of the United States Tariff Commission, result in serious injury. The procedure involved the establishment by the Commission, after public hearings and investigation, of peril points, which were the lowest rates of duties which could be fixed for specific items without endangering domestic producers. The President was prohibited from granting concessions below such peril points without reporting his reasons for doing so to the Congress.

The best illustration of the effect of this "safeguard" is found in the President's report to the Congress of March 7, 1962 on his action in granting concessions below the peril points on a number of items in connection with trade agreements previously negotiated in Geneva. His reasons for doing so boil down to one—that the negotiators were "grievously short of bargaining power". In other words, the negotiators, in order to get concessions which would be helpful to certain U.S. producers, had to have something more to give away. The President, accordingly, authorized the granting of concessions on a number of items, which concessions he had been warned by the Tariff Commission would result in serious injury to domestic producers.

The President attempted to justify this action by determining himself that the concessions could be made without "serious competitive risks for American industry". He explained his action in usurping the function of the Tariff Commission as the "finder of the facts", by stating that the Commission's findings were merely "hasty predictions" which "were necessarily superficial". While it is recognized that the Commission is not infallible and that it had to make predictions as to a large number of items in a relatively short period of time, it is submitted that the Commission was in a better position to make predictions than was the President. The President did not set forth any facts on which he based his prediction that no serious competitive risks were involved, and it did not appear that he made any investigation or conducted any public hearings in an effort to ascertain the facts. The Commission did investigate each of the industries producing the products on which the negotiators granted concessions, and based its determinations on the facts adduced during the investigation and at the public hearings held by the Commission.

In net effect, the President "justified" his action in ignoring the peril points by pointing to the concessions obtained from foreign countries as a consequence. While no question is raised as to whether the President's action was for the over-all good of the national economy, or whether he had a legal right to take such action, there is a serious question as to whether the action was consistent with the frequently annocunced intent of Congress to provide protection to all domestic industries. There is also a question as to what justification there is for purposely endangering the continued operation of producers of specific products, and the employment opportunities afforded by such producers, without first providing some means for compensating the producers and of assisting the workers who might well lose their jobs in the event the Commission's predictions prove accurate. These producers, and their employees, may well have been sacrificed for the benefit of the producers of other items. This may be good for the over-all economy, but it is completely contrary to the basic principles to which Congress has always adhered.

ESCAPE CLAUSE PROCEDURE

The so-called "escape clause" was enacted in recognition that concessions might be granted, despite the peril-point procedure, which would result in serious injury to domestic industry. In essence it permitted applications to the Tariff Commission for determination as to the effect of increased imports resulting from concessions on particular industries, and recommendations by the Commission to the President for the relief of any injury found to exist.

While this Committee has available to it the full record of all cases which were brought under the escape clause, the Committee might not be aware of the fact that it was virtually impossible for any industry, no matter how severely injured, to obtain any effective relief. One of the most compelling examples is the experience of the clothespin industry.

The U.S. Tariff Commission found in October, 1957 that the spring clothespin industry was being seriously injured by increased imports resulting from a reduction in the duty from 20¢ to 10¢ per gross. It advised the President that the maximum increase then permitted—which was to 20¢ per gross—would be inadequate to remedy the injury, and recommended imposition of an import quota. The President agreed with the determination of injury, but disagreed with the recommendation. In December, 1957 he issued a proclamation withdrawing the concession and restoring the 20¢ rate of duty.

As predicted by the Commission, the increase in the duty proved to be inadequate. As will be fully developed later in this statement, imports have continued to increase, production and sales have continued to decline, and the domestic industry today is in a much worse financial condition than it was at the time the increase was promulgated.

This situation has not resulted solely because a 20¢ rate of duty as predicted by the Commission, has proved inadequate. The truth of the matter is that the effect of a 20¢ rate of duty is difficult to determine, since, notwithstanding the President's 1957 proclamation, *for all practical purposes the 20¢ rate of duty did not go into effect until 1962.*

The anomalous situation arose because of a determination by the U.S. Supreme Court in December, 1960, in a case involving bicycles, that the President did not have the power to modify the recommendations of the Tariff Commission. The practical effect of this decision was to invalidate the President's proclamation increasing the duty on spring clothespins, although a decision on spring clothespins was not actually handed down by the Customs Court until November, 1961. Protests had been filed by importers in connection with most shipments between December, 1957, when the President's proclamation increasing the duty was issued, and December, 1960. Following the Supreme Court decision, all imports of spring clothespins were protested.

Accordingly, although the ostensible duty imposed on spring clothespins in December, 1957 was 20¢, the importers received from the U.S. government a refund of 10¢ on every gross of clothespins included in a protested shipment. Beginning in December, 1960 the importers knew that the 20¢ rate was invalid and were content to pay the 20¢ rate with the assurance that 10¢ would eventually be refunded.

The real significance of this situation lies in the fact that the President knew in December, 1960 that the proclamation increasing the duty on spring clothespins was invalid. During the same month he received from the Tariff Commission a report informing him, in net effect, that continuance of the proclaimed duty was essential. *Nearly nineteen months elapsed before action was taken to validate the 20¢ duty.* Shortly after the Supreme Court decision the President asked the Tariff Commission to conduct a public hearing and determine a peril point on spring clothespins. This was done on January 9, 1961, and although the domestic producers do not know the exact peril point established, it had to be at least 20¢ since the Commission in December, 1961 again advised the President in a formal report that "continuance" of the 20¢ rate was necessary.

Following the establishment of the peril point in January, 1961, the U.S. began negotiating with Sweden and Denmark for a new trade agreement covering spring clothespins. In September, 1961 the President announced that agreement had been reached with Sweden, but formal action was withheld pending settlement with Denmark. In December, 1961 the writer was informed by a representative of the importers that agreement had been reached with Denmark. Such agreement was not announced by the President until March 7, 1962—although the importers knew about it in December, 1961. The March 7, 1962 announcement stated that the rate of duty on spring clothespins was bound at 20¢ in an agreement with Denmark.

However, the 20¢ rate was not put in effect until July 1, 1962. The writer is informed that the agreement with Denmark, reached in December, 1961, specifically provided that the 20¢ rate would not be put into effect until July 1, 1962, thus giving importers an opportunity to flood the domestic market with spring clothespins at the 10¢ rate.

Importers took full advantage of this moratorium. During the first six months of 1962 a total of 1,461,000 gross were imported. This figure represents an increase of nearly 500,000 gross over the comparable period in 1961. These imports during the period of the moratorium were sufficient to completely demoralize the domestic market for the entire year of 1962, and imports took over 36% of the market in that year.

The most significant feature of this situation is the fact that the agreement to postpone the effective date of the 20¢ rate until July 1, 1962 apparently was not reported to the Congress by the President. An agreement to continue a lower rate of duty for a specified period of time is a "concession" granted in a trade agreement just as much as an agreement to reduce a rate of duty. Since the 10¢ rate which was allowed to continue in effect was below the peril point established by the Tariff Commission, the President was required by Section 4(a) of the Trade Agreements Extension Act of 1951, as amended, to report the "concession" on the effective date of the increase to the Congress. This report was not made, so far as the writer can ascertain. If made, it was certainly not made public.

Thus despite a determination by the President that the domestic spring clothespin industry was being seriously injured by a concession granted under the trade agreements program, and despite his knowledge in December, 1960 that his action designed to relieve such injury was invalid, no relief of any kind was forthcoming until July 1, 1962. Negotiation of trade agreements takes time. However, Section 6 of the Trade Agreements Extension Act of 1951 specifically provided that no concession shall be permitted to remain in effect where a determination is made that such concession is causing injury. *The concession on spring clothespins was allowed to remain in effect for four years and seven months after a determination of injury was made by the President himself.*

The President had the power to make an immediate withdrawal of a concession under the provisions of the Trade Agreements Act, and a quick withdrawal under the provision of GATT, Article 28. Had he desired to do so, he could have effectively withdrawn the concession within days after he learned in December, 1960 that his former action was invalid. His delay in doing so resulted in irreparable harm to the domestic industry.

The problems of domestic industry in securing relief under the escape clause were not confined to the difficulty of getting action by the President. There were many difficulties in getting a favorable recommendation from the Tariff Commission, largely due to differences of opinion as to what Congress meant by the words "industry" and "like or directly competitive products", as used in the escape clause. For example, several of the domestic producers of spring clothespins also produce standard or slotted pins. Throughout the course of several hearings and investigations as to the effect of increased imports of spring clothespins, the domestic producers argued that the Commission should take into consideration the impact of such imports on domestic sales of standard clothespins.

It was pointed out that standard pins are used for the same purpose as spring pins, and are directly competitive. As a matter of fact, the industry established that standard pins had enjoyed a competitive advantage over spring pins for many years due to lower prices; that imports of spring pins were priced at about the same level as domestic standard pins; and that the most serious effect of imports of spring pins was on domestic sales of standard pins. At the same price most housewives will buy spring pins in lieu of standard pins, and with imported pins available at the same price, domestic sales of standard pins declined sharply.

Nonetheless, the Commission found, in 1957, that standard and spring pins were "not like or directly competitive within the meaning of the pertinent legislation."

Thereafter standard pin shipments continued to decline, dropping from 4.8 million gross in 1956 to 3.5 million gross in 1961. At the same time imports of standard pins began to sky-rocket, increasing from 44,000 gross in 1956 to 361,000 gross in 1961. Since the Commission apparently considered that spring and standard clothespins were produced by separate "industries", and were not competitive items, the standard pin "industry" applied for an escape clause investigation to determine whether imports of standard pins were causing injury. The result was a determination by the Commission made in February, 1962, to the effect that the troubles of the standard pin industry were not caused by imports of standard pins, but were due to the competition from spring pins. How the Commission could conclude in 1957 that spring and standard pins were not competitive, and then in 1962 could conclude that the obvious injury to the standard pin manufacturers was being caused by competition from spring pins, is difficult to understand. However, those are the facts.

Another example of the problems which domestic industries faced in obtaining Tariff Commission action in escape clause cases arose out of the granting of concessions on all items in a so-called "basket" classification. Such a concession was granted on manufactures of wood, not otherwise classified. This concession affected a large number of wood products, including ice cream sticks, cocktail forks, and other flat veneer items.

Domestic producers of these items were being severely injured by large volumes of imports, particularly of ice cream sticks and cocktail forks, which imports were being sold on the domestic market at prices lower than the cost of production in the United States. The domestic producers, however, could not even apply for escape clause relief since there was no way to establish the actual quantities being imported. Import statistics were not available, and could not be obtained, at least by the domestic producers, as to the individual items in the basket classification. The only figures available were total imports of all items in the classification.

As a result, the domestic industry was unable to sustain the burden of proving to the Tariff Commission that imports of specific items had increased as a result of the trade agreement concession.

The only conclusion that can be reached is that the escape clause and peril point procedures were grossly inadequate to provide any reasonable degree of protection to domestic industry against injury from trade agreement concessions.

ADJUSTMENT ASSISTANCE PROCEDURE

This Committee is fully informed as to the extent of the "assistance" which has been rendered to workers, firms and industries under this procedure during the nearly 6 years it has been in effect. The current score is 19 applications and 19 denials of assistance. The failure of such procedure to provide effective assistance in nearly 6 years is proof of its inadequacy. The following discussion of the reasons for its inadequacy may be of assistance to the Committee in evaluating the changes recommended in the President's message of May 28, 1968, wherein the President acknowledged that the assistance program had not been effective:

The Trade Expansion Act of 1962 makes no provision for those who are and will be injured indirectly by the trade agreement program. Neither does the proposed "Trade Expansion Act of 1968." These include the merchants and service establishments in small towns, who are dependent upon the plants and their workers located in such small towns for the success of their businesses; the thousands of individuals and firms who supply such plants with raw materials; the trucking companies and their employees who transport raw materials to the plants and finished products from the plants to market; and the small towns themselves.

While the specific firms likely to be sacrificed, to which the Administration spokesmen referred in 1962, were not identified, it is safe to say that most of them are located in small towns throughout the country. The industries most likely to be injured and sacrificed under the trade agreement program are generally the small producers located in small towns who are already in trouble as a result of increased imports directly traceable to concessions in duties heretofore granted. Small companies with high labor costs are unable to compete on a price basis with foreign producers paying low wages. Normally they do not have the capital to invest in highly efficient machinery and must rely on labor. The only domestic industries which can hope to survive without tariff protection are the large, highly mechanized and efficiently operated producers. Most of these are located in big industrial centers and produce items which can compete abroad with foreign-made merchandise.

This point can best be illustrated by specific examples:

1. *In the slide fastener industry*

Two of the plants producing slide fasteners are located in the so-called Appalachia region of Georgia. These are branch plants operated by Scovill Manufacturing Co., and Talon, Inc. and are designed to supplement the production of the principal plants of these concerns. They would be the first to cease to operate in the event it became necessary for these companies to curtail production because of a loss of part or all of the domestic market to imports. The economic effect of the closing of these plants is dramatically demonstrated by the following analysis made in 1964 and presented to the U.S. Tariff Commission:

"According to an article which appeared in The Atlanta Journal and The Atlanta Constitution on March 1, 1964, the largest monthly payroll in Georgia's Appalachia region is "public assistance".

"The article goes on to say:

> "While poverty in Appalachia, Georgia, may not be as extensive as, say, in the coal fields of Kentucky, the region still is a dark spot on the face of shimmering prosperity.
>
> "In Appalachia, Georgia (a region rich in natural resources and scenic grandeur):
>
> "Taxpayers spent $1,471,678 during January for welfare assistance. A total of 32,493 persons (out of a population of 675,000) drew an average of about $45 each from their department of Family and Children Services in January.
>
> "Fourteen Appalachia counties are listed by the U.S. labor Department as areas of substantial unemployment—at least 6 percent of the work force is out of work. Eleven of these are listed as areas of 'substantial and persistent unemployment'."

"The article concludes:

> "Appalachia's problems may be among Georgia's most striking. But poverty is not limited to the mountains by any means.
>
> "Almost incredible conditions of poorness exist within the shadow of the state Capitol. Urban areas such as Atlanta, are overburdened with rural families displaced by farm machines who have come to town only to find that the city has no place for them either."

"The Scovill and Talon slide fastener branch plants are located right in the heart of the Appalachia Region, just described. The Scovill plant is located in Clarkesville, Georgia, a city with a population of only 1352 persons in Habersham County. According to the latest figures available, Habersham County has a population of 19,000, with about 2,500 unemployed.

"The Scovill plant employs 370 workers with an annual payroll of over $1,000,000. It is one of four industrial plants in the entire area. The other three employ a total of about 640 workers. Total employment in the area served by Clarkesville is approximately 2000, of which the four industrial plants provide employment for a total of 1010. There are currently about 2500 workers in the Clarkesville area who are unable to find employment, and it is obvious that if the Scovill plant were to close an additional 370 workers would be added to the unemployment roll. As indicated by the above-quoted article, there does not appear to be anywhere for these people to go for employment. Even Atlanta—some 95 miles away, and the closest large city—has no place for them.

"Similarly, the Talon branch plant is located in Cleveland, Georgia, a city with a population of only 700 in White County. The December 1963 Labor Market Report issued by the Georgia State Employment Service of the Department of Labor shows that White County has a population of 6935, with a civilian labor force of 1900. As of February 1964, 133 or 7% were unemployed.

"The Talon plant employs approximately 230 workers and has an annual payroll of approximately $800,000. All except four of such workers are long-time White County residents. The Talon plant is the only industrial plant in Cleveland, and there are only two other industrial plants in the county. These provide employment to about 300 workers. Currently there are 58 employable workers living in Cleveland who have been unable to find any kind of employment. Again it is clear that if the Talon plant were forced to close an additional 230 workers would be added to the rolls of the unemployed, and would have no place to go in the area—not even to Atlanta which is about 65 miles away."

The full economic impact of the closing of these plants can only be visualized by picturing the effect on the cities in which they are located. Attached to this statement are letters from the Honorable S. W. Reynolds, Mayor of the City of Cleveland and Mr. Clifford Campbell, Clerk of the Superior Court of White County, marked "Appendix B" and "Appendix C" respectively, emphasizing the importance to Cleveland and White County of the continued operation of the Talon plant, and pointing out the direct economic impact on the area if the plant had to close. The Slide Fastener Association has on file a certification by the Tax Commissioner of White County showing that during 1964 139 of the Talon employees owned their own homes and paid taxes. It is apparent that if the Talon plant were closed these 139 workers would have to sell their homes at a substantial loss, if forced to seek employment elsewhere, and would seriously affect the entire economy of the area.

Since 1964 the Administration has been studying poverty conditions in the Appalachia, Georgia area and the Congress has appropriated millions of dollars to "prop up" the economy of the area and to provide jobs for the unemployed. At the same time as it is spending these millions of dollars, the Administration has reduced the duties on products manufactured in the area, thus endangering the jobs of some 600 workers in slide fastener plants who are forunate enough to now have employment.

2. In the Clothespin Industry

The town of West Paris, Maine, with a population of 670 people, has only two industrial plants, both engaged in the production of wood products. One employs only about a dozen workers and the other, Penley Bros., employs about 150 workers in the production of clothespins. The few remaining workers employed in the town work for merchants, trucking companies and service establishments. Many of the workers own their own homes, pay taxes to the town and generally contribute to the continued existence of the town.

The wood used by Penley Bros. in the production of clothespins is largely furnished by hundreds of farmers in the vicinity whose only cash income is from the sale of wood cut from small wood lots.

If the clothespin industry is one of those to be sacrificed, as appears highly likely, the Penley Bros. plant will be forced to close down, putting 150 workers in West Paris out of work directly. Since there are no other employment opportunities in the town, these workers would be forced to look elsewhere for jobs, and probably would have to move their families to a large industrial center, learn a new trade, and hope for a job manufacturing a product which will have a market abroad through concessions obtained from foreign countries.

If they own their own homes they would be forced to sell, with no market for homes due to the lack of employment opportunities in West Paris. The merchants and service organizations in West Paris would lose their customers and unquestionably would be forced to close. The trucking companies and their workers would lose their sole source of revenue in West Paris and would be forced to seek business elsewhere. The hundreds of farmers would lose their market for their wood.

The town of West Paris could not possibly survive the closing of the Penley Bros. plant and would become another ghost town. To be sure, the Trade Expansion Act of 1962 provides for assistance to Penley Bros. However, in order for Penley Bros. to qualify for such assistance it would have to get the President to determine its eligibility (no easy task even with the proposed changes), and then would have to present to the President a proposal for its economic adjustment and satisfy him that the proposal was "reasonably calculated materially to contribute to the economic adjustment of the firm; to give adequate consideration to the interests of the workers of such firm adversely affected . . . and . . . that the firm will make all reasonable efforts to use its own resources for economic development".

The machinery and equipment in the Penley Bros. plant is designed solely for the production of clothespins. It could not be used for anything else and would have to be junked. This would leave the company with an empty shell of a building, and it would have to start from scratch. The only advantage of its location is its proximity to wood supplies. Even if it could finance with government loans the installation of new machinery, designed to produce other wood products, it's chances of success are practically nil. The production of other wood products is highly competitive and existing manufacturers are already in trouble as a result of increased import competition.

It could, of course, at the taxpayers' risk, tool up for the production of entirely different products, using raw materials transported from another area of the country. In so doing it would be embarking on a highly risky venture, entering another market in competition with existing firms which are probably located closer to the source of supply of necessary raw materials and which have established selling organizations and contacts with the market.

Aside from the difficulty of presenting a satisfactory proposal for its economic adjustment, Penley Bros. would be expected to enter into partnership with the Federal Government. Any loans or other assistance would be subject to such "terms and conditions" as the President deems "appropriate". Such terms and conditions would probably include a voice in management, directions as to the specific products to be manufactured and as to methods of distribution, prices, etc. Individual stockholders of the firm could be required to endorse notes evidencing any loans made to the firm and would remain liable if the firm failed. In effect the firm would become a virtual ward of the government. The President has proposed no changes which would eliminate any of these problems.

Under these circumstances it is highly probable that Penley Bros. would cease to exist, and would not even apply for assistance under the Act.

The next question is what happens to Penley Bros. employees? The Act as it is proposed to be amended, "assures" these workers of assistance, provided they can prove to the President (formerly the Tariff Commission) that they lost their jobs as a result of increased imports. In the absence of an application by the industry or by Penley Bros. for a determination that the company is eligible for assistance, the workers would be on their own, and would face an almost insurmountable task. As indicated before, persuading the Tariff Commission to make a determination as to injury resulting from increased imports is not easy, even with the combined efforts of an entire industry. Persuading the President under the proposed new Act can be equally difficult. It is inconceivable that individual workers, even though represented by a union, could assemble the voluminous facts and figures necessary to enable the President with the advice of the Tariff Commission under the proposed Act to find that increased imports of a particular commodity have been a substantial cause of unemployment or underemployment or a threat thereof of a significant number or proportion of workers".

Even assuming that such a determination is made as to Penley Bros., the individual workers face many other problems. In the first place the workers would have to accept "suitable training" approved by the Secretary of Labor. This could be training in a field of no interest to the individual workers, for a job in an entirely different part of the country. If the worker refuses the training "without good cause", he would not be eligible for any assistance.

Again assuming that the Penley Bros. worker could establish his eligibility and was willing to accept the conditions to assistance, he still would face serious problems. If he owned his home in West Paris he probably could not sell it. He would receive a maximum of 65% of his average weekly wage or 65% of the average weekly manufacturing wage, whichever is less, plus an inadequate allowance for moving expenses for his family. Reestablishment of a family in a new community, with little or no capital to work with, and with greatly curtailed income pending the time the worker is able to find a new job, is not simple.

Finally, the question arises as to what compensation is offered to the town of West Paris itself, the merchants, service establishments, truckers, farmers, etc. who have depended on the continued operation of Penley Bros., and the many others who would be indirectly injured by the sacrifice of Penley Bros. in order to obtain a concession from the European Common Market which would provide employment in Cincinnati, or elsewhere. The answer, of course, is none.

While it may be argued that Penley Bros. and the Talon and Scovill plants are isolated examples, and possibly extreme ones, and that the continued existence of West Paris, Clarkesville and Cleveland, Georgia is unimportant to the national economy, it is suggested that there are literally thousands of small towns throughout the U.S. which are dependent upon small plants. One of the basic features of the American way of life has been the operation of small businesses in small communities, providing employment to residents of such communities.

Congress has granted powers which can well destroy this way of life, through the sacrifice of these small companies. The writer does not profess to have the omniscient powers necessary to foresee the final results. It may well be that such a sacrifice is needed for the future welfare of the country. However, it is submitted that if the benefits to the over-all economy are as great as they have been painted by the Administration spokesmen, the taxpayers generally should be willing to pay for such benefits. The burden should not be shouldered by the 800 firms and 90,000 workers the Administration asked in 1962 the power to sacrifice, or by the uncounted thousands of others who will be directly or indirectly injured by such sacrifice.

THE NEED FOR ACTION BY CONGRESS

The inadequacy of the present law to provide needed protection and assistance will inevitably result in unnecessary and unfair hardships on countless workers, businesses and small towns unless remedial legislation is enacted. The following discussion of the impact of imports on the clothespin and slide fastener industries will serve to illustrate this danger:

1. The clothespin industry

During the years since World War II, as a direct result of increased imports encouraged by the trade agreements program, nine clothespin plants have either closed down completely, or discontinued the production of clothespins. These nine plants were located in Phillips, Maine; Glen Rock, Va.; Waterbury, Vermont; Cloquet, Minn.; San Jose, Calif.; Richwood, W. Va.; Ellsworth, Maine, Munising, Mich. and Spencer, Indiana—all small towns in which the loss of the employment opportunities previously afforded by the clothespin plants, was particularly serious.

Only four plants remain in operation. These are located in Dixfield, Mattawaumkeag and West Paris, Maine and in Montpelier, Vermont. These plants contribute materially to the economic welfare of the small towns in which they operate by providing employment to a large percentage of the employables, and by providing a market for wood which is the primary, if not sole source of income for hundreds of farmers.

These four plants have been struggling to survive under a 20¢ rate of duty on spring clothespins and a 15% rate of duty on standard clothespins.

Up until about ten years ago consumption of standard pins far exceeded consumption of spring pins. This was largely due to the fact that standard pins were considerably cheaper than spring pins, and since they served the same purpose, the average housewife bought the less expensive type. Beginning in 1947 or 48 the trend of consumer preference changed and the percentage of standard pins to total consumption of clothespins declined rapidly—from 65% in 1947 to only 25% last year. This change resulted from two principal factors:

1. The development of more efficient assembly machinery which reduced the cost of producing spring pins, enabling domestic producers to reduce their prices, and thus decreasing the price spread between spring and standard pins.
2. The flood of imported spring pins offered at prices equivalent to the domestic price for standard pins.

For all practical purposes the price advantage which standard pins had enjoyed historically was wiped out, and housewives were able to buy imported spring pins at about the same price as they would have to pay for domestic standard pins. As a consequence, consumption of spring pins increased and consumption of standard pins declined correspondingly. Total consumption of clothspins has remained relatively stable during the past 20 years, despite increased use of automatic clothes dryers, laundromats, etc. Average consumption during 1947–56 was 9,643,000 gross, and during the last six years consumption has averaged 9,990,000 gross.

The conclusion is inescapable that increased imports of spring pins have seriously injured domestic standard pin producers, as well as domestic spring producers. Since the producers are one and the same, and since the ability of clothespin producers to continue to operate and to compete for the domestic market is dependent on their sales of both types of pins, any consideration of the economic impact of increased imports of spring pins necessarily involves the competitive effect of such imports on domestic sales of both types of pins.

The attached Table I contains a summary of U.S. shipments, imports and apparent consumption of both standard and spring pins during the years 1947 through 1967. From this table the Committee will note that average sales by domestic producers during 1947–56 of both types of pins totalled 8,542,000 gross annually. During the last six years they totalled only 7,575,000 annually—a decline in annual domestic sales of 967,000 gross. Sales during the first quarter of 1968 were at the annual rate of only 5,328,000 gross.

During the 1947–56 imports of both types of pins averaged 1,101,000 gross annually, and during the last six years imports averaged 2,415,000 annually—an increase of 1,313,000 gross. Imports during the first quarter of 1968 were at the annual rate of 2,640,000 gross. Total consumption increased with an average of 9,643,000 in 1947–56 to an average during the last six years of 9,990,000 gross—an increase of 347,000 gross. Despite this increase in consumption, sales by domestic producers have declined by 967,000 gross annually.

In terms of percentage of imports to domestic shipments and to consumption, Table I shows that imports were only 13% of domestic shipments in 1947–56, and during the last six years jumped to 32%, and during the first quarter of 1968 to 49%. Imports during 1947–56 represented only 11% of domestic consumption, and during the last six years represented 24%. During the first quarter of 1968 imports represented 38% of domestic consumption.

The U.S. Tariff Commission has in its possession the answers to questionnaires filed by the domestic producers showing the profits and losses in connection with both spring and standard pins during the years of 1961, 1962 and 1963. These figures show that in 1961 the domestic clothespin industry suffered a loss of $279,000 on its clothespin sales. In 1962 it showed a small profit of $114,000 on total sales—an average profit of only one and one-half cents per gross. In 1963 the industry again operated at a substantial loss—$97,000. Figures for later years are not available but it is believed that they would show even greater losses, since volume has declined, costs have increased and there has been very little change in domestic prices.

From Table I it must be concluded that increased imports of both spring and standard pins have caused serious injury to the domestic industry producing like and directly competitive items, and that such injury has gotten progressively worse each year despite the increase in the import duty on spring pins in 1962 referred to above.

The industry now faces a further reduction in duties as a result of the "Kennedy Round". The duty on spring clothespins will be reduced to 10 cents per gross and the rate on standard pins to 7½% ad valorem. If the industry cannot hold a fair share of the market, and cannot reflect a reasonable profit on its operations, at current rates of duty, it is inconceivable that it can do so with a further reduction in such rates.

2. *The Slide Fastener Industry*

The slide fastener industry, which is entirely the product of American inventiveness, ingenuity and investment, consists of some 180 companies engaged in the manufacture and assembly of slide fasteners and their component parts, has had to battle for its life since shortly after 1928 against foreign-made slide fasteners produced with low-cost labor, and sold in the United States at prices far below domestic costs of manufacture. The battle has been a long and bitter one, with many ups and downs.

Apparently in recognition of the urgent need of the domestic industry for reasonable protection against low-priced foreign slide fasteners and parts, particularly those imported from Japan, the U.S. Tariff Commission and other government agencies have several times come to the assistance of the industry, with the result that the industry has been enabled to grow steadily and to provide employment for thousands of workers.

Patents afforded the industry reasonable protection until about 1932, when foreign-made fasteners began to flood the American market in complete disregard of American patents. An appeal to the Tariff Commission in 1932 resulted in an Order of Exclusion. This order helped some, but in view of the expiration of a number of the basic patents, by 1935 the industry was again in trouble. Tremendous volumes of imports from Czechoslovakia and Japan entered the country, and in the fall of 1935 the Commission was again asked for help—this time under Section 336 of the Tariff Act of 1930. This appeal resulted in an increase in the rate of duty from 45% to 66%. Although this increase helped to stem the flood of imports from Eureopean countries, it did not have any appreciable effect on Japanese competition. The cost of Japanese fasteners was so low that, from the standpoint of ability to undersell the domestic product, it made little difference to importers whether the duty was 45% or 66%.

Imports, primarily from Japan, continued to rise, reaching a high of 43,000,000 units in 1938. Then the war came and the industry's problems with imports temporarily came to an end. Following the war four reductions in the rates of duty were made through trade agreement concessions. The duty was reduced from 66% to 40% on slide fasteners valued at over 4¢ each and to 50% on fasteners valued at 4¢ or less and on parts.

Imports jumped from negligible quantities during the years following the war to over 7,000,000 units in 1959. However, they fell off after 1959 for the reason that in 1960 the Japanese importers obtained a ruling from the U.S. Customs Bureau under which slide fastener chain was classified either under Par. 912 at 17½%, or as metal products, nspf, under Par. 397 at 19%, depending upon whether in chief value of cotton or metal.

Importers found it more profitable to import chain, and assemble the slide fasteners in the U.S., paying the 17½% or 19% duty, rather than to import completed fasteners and pay the 40 or 50% rate. As a result substantial quantities of chain were imported until September 1, 1963, when an appeal to the Customs Bureau resulted in a reversal of the ruling and a requirement that chain in chief value of metal be classified as parts of slide fasteners, with the 50% duty applicable.

As a further means of avoiding the 50% duty applicable to parts, beginning in 1958 importers began to import from Japan flat and corded slide fastener tape. Corded tape represents approximately 60% of the cost of the raw materials going into slide fasteners. Flat tape is simply a narrow strip of textile fiber—primarily cotton—with fast edges. Corded tape consists of flat tape to one edge of which is affixed a cord which anchors the teeth or scoops which make up the chain. The cord may be woven into the tape at the time the tape is made, in which event the end product is known as "woven corded tape", or it may be sewn on after the tape is woven, in which case it is known as "sewn corded tape".

There is no known commercial use for either woven or sewn corded tape except in the manufacture of slide fasteners. The two types look very much alike and only an expert could tell one from the other merely by looking at them. They are used for the identical purpose and are directly competitive.

The slide fastener tape which began to come into the U.S. in 1958 from Japan was primarily corded tape classified under Par. 912 with a rate of duty of 17½%. By 1960 these imports were beginning to seriously injure domestic producers of such tape and domestic textile and slide fastener manufacturers communicated their concern to the U.S. Tariff Commission, the Department of Commerce and the Department of State.

Imports of tape from Japan increased from 171,000 lbs. in 1958 to 971,000 lbs. in 1962, when it was finally determined that the 17½% rate of duty was grossly inadequate to protect the industry and that the industry was being seriously injured by increased imports. The result of this determination was that slide fastener tape was accorded special treatment under the Long Term International Cotton Textile Arrangement, and graduated quotas were established.

These quotas have been of inestimable value to the domestic industry. Without them it is probable that there would no longer be a domestic industry. As a result of the quotas, imports during most of 1963 were at a relatively low level, totalling 795,000 pounds during the year. However, since the latter part of 1963 (when the Customs ruling on chain was reversed and chain was required to enter at the 50% rate), the trend of imports of tape has continued upward—not withstanding the quotas. The exact extent of this upward trend cannot be determined for the following reasons:

The Tariff Classification Act of 1962, which went into effect Aug. 31, 1963, included slide fastener tape under TSUS 347.3340 at the 17½% rate of duty. Some time thereafter the Customs Bureau ruled that *sewn* corded slide fastener tape was a manufactured product and hence should be included under TSUS 386.50, with a 20% rate of duty. *Woven* corded tape continued to be classified under TSUS 347.3340.

As stated above, the usage of woven and sewn corded tape is identical—solely for the manufacture of slide fasteners. The basis for the two classifications is far from clear, but it is quite clear that the result was to make it impossible to determine the quantity of slide fastener tape imported since such time. Figures are available showing the total imports of flat and *woven* corded tape under the 347 classification, but no figures are available to show imports of *sewn* corded tape under the 386 classification.

On Feb. 3, 1964 the Bureau of Customs ruled that corded tape had no known commercial use other than in the manufacture of slide fasteners and should be classified as slide fastener parts under TSU 745.74. As a result of this ruling, imports of *sewn* corded tape were subject to the 50% rate of duty under TSUS 754.74.

There is a difference of opinion among government officials as to whether *woven* corded tape also was classified under TSUS 745.74 or remained under 347.3340. Since the ruling of the Bureau specifically referred to TSUS 386.50 and described the item by stating "the cord is sewn to the fabric after the weaving of the fabric", it is believed that the ruling was construed to be applicable only to sewn tape, notwithstanding the fact that *woven* corded tape also has no known commercial use other than in the manufacture of slide fasteners, and clearly is as much a part of a slide fastener as is *sewn* type.

While no definitive answer as to the classification under which woven tape was imported since Feb. 3, 1964 had been forthcoming, it is safe to conclude that at least some—if not all—has been brought in under the 347 classification. The import figures so indicate. If woven tape during 1964 has been removed from the 347 classification and placed under 745, it seems probable that the volume of imports under 347 would decline and that there would be an increase under 745. As a matter of fact, the reverse is true. Imports under 347 jumped from 793,000 lbs. in 1963 to 975,000 in 1964 and 1,309,000 in 1965, while imports of parts under 745 declined from $183,000 in 1963 to $135,000 in 1964.

Effective Oct. 7, 1965 TSUS 745.74 was revised to specifically exclude "tapes wholly of textile fibers," in response to pressures brought on the Congress by Japan. Since such date sewn corded tape has been imported under TSUS 386.50 and woven corded tape went back to the 347 classification, if it ever left there.

Accordingly, the figures representing imports of slide fastener tape under TSUS 347.3340 must be increased by the following:

1. The quantity of sewn and woven corded tape imported under TSUS 745.74 from Feb. 3, 1964 to Oct. 7, 1965.
2. The quantity of sewn corded tape imported under TSUS 386.50 prior to Feb. 3, 1964 and after Oct. 7, 1965.

These quantities are unknown since both classifications contain other items. However, it is reasonable to conclude that the increase was substantially greater than is indicated by the official figures for imports under TSUS 347.3340.

Effective Oct. 1, 1966 the U.S. and Japan entered into a new bilateral agreement reducing the duty rates on slide fasteners 2% per year for 5 years, which agreement, together with the recent "Kennedy Round" cuts resulted in a current rate of duty of 43% on slide fasteners valued at 4¢ or less, and 34% on fasteners valued at more than 4¢. These rates will be further reduced under the GATT agreement to 25% for fasteners valued at 4¢ or less and to 20% for fasteners valued at more than 4¢. The duty applicable to parts will be reduced to 35% under the GATT agreement.

The GATT agreement will also result in reductions in the 17½% rate under TSUS 347.3340 applicable to flat and woven corded tape to 13.3% and in the 20% rate under TSUS 386.50 applicable to sewn corded tape to 14%.

These reductions have been and are being made despite:

1. The following trend in imports of slide fasteners:

Year	*Units*
1963	1,113,000
1964	1,628,000
1965	3,552,000
1966	10,705,000
1967	28,376,000
1968 (1st qtr) an annual rate of 45,482,008	11,370,502

2. The increase in imports of slide fastener tape to which reference has been made.

3. A substantial increase in volume of imports of wearing apparel, bags and hundreds of other items *containing* slide fasteners.

Any determination as to probable economic effects of these reductions in duty on slide fasteners and parts is dependent upon an estimate as to the extent to which such reductions would curtail domestic production. It is, of course, difficult to come up with such an estimate in view of the many variable factors involved. However, the Tariff Commission itself estimated in 1945 that a duty reduction of 50% would probably result in imports supplying between 15 and 20% of the domestic market (1945 report to the Senate on "Post-War Imports and Domestic Production of Major Commodities").

The slide fastener industry believes that his prediction was unduly conservative. It is obvious that imports increase where they can be sold at prices lower than the prices of domestic manufacturers. The desertion of the domestic product for the foreign product for price reasons is bound to be cumulative. As the volume leaders in one after another of the industries using slide fasteners turn to the lower priced foreign product, their less important, low volume competitors must follow in order not to be at a competitive disadvantage. The desertion of one large customer, a volume hand bag manufacturer, for instance, might force the desertion of twenty of its competitors to the imported product.

The loss of 20% of the domestic market to foreign production, as was estimated by the Tariff Commission in 1945 in the event of a 50% decrease in duty, would undoubtedly progress to a further loss far exceeding that percentage. Any opening of the gates which would permit foreign-made fasteners to flow into the American market at prices substantially lower than domestic prices would soon result in an increasing flood which might in a short space of time engulf the entire American industry.

It is important to note that since this prediction by the Commission the rate of duty applicable to slide fasteners has already been substantially reduced, and when the GATT reductions are effected the total reduction from the rates in effect when the 1945 prediction was made by the Commission would be 70% in the case of slide fasteners valued over 4¢ each, and 62% in the case of slide fasteners valued at 4¢ or less.

It is apparent that such a reduction of from 62% to 70% of the rate of duty in effect in 1945, would probably lead to a loss to imports of a considerably greater part of the domestic market than estimated by the Commission in its 1945 report to the Senate. Moreover, a loss of even 20% of the domestic market to foreign production would directly affect employment in the slide fastener industry. It would necessarily result in reducing employment and probably would also mean reduced compensation for those remaining in employment. It would also adversely affect employment in those industries which supply the slide fastener industry with raw materials.

If the percentage of the market lost to imports increased to above 20% as is highly probable, the closing of domestic plants would inevitably result.

CONCLUSION

Domestic producers of clothespins, flat veneer products and slide fasteners have already lost a substantial part of their domestic markets as a result of duty reductions under the trade agreement program. With the further reductions provided for under the GATT agreement, it is anticipated that increased imports will force a drastic curtailment of domesitc production, the layoff of American workers and closing of plants. There is presently a wide price differential favoring imports, which gap will be widened by the projected duty reductions, encouraging more and more users to switch to imports.

The domestic industries believe that Congress did not intend that the trade agreement program would result in the sacrifice of American industry and workers in order to make a gift of the American market to foreign producers. They believe that the program was intended as a means of making all markets available to all producers on an equal basis, without artificial restraints which give one group of producers a competitive advantage over others. Tariff restrictions should be designed to enable both foreign and domestic producers to compete *on an equal basis* for the domestic market as well as for foreign markets.

Domestic producers fully recognize the importance to the national economy of entering into trade agreements under which foreign markets are made "available" to the products of American labor, and the necessity of making compensatory concessions to foreign countries under which the American market will be made "available" to products of foreign labor. However, they submit that making a market "available" merely means to enable both foreign and domestic producers to compete for it on an equal basis, without artificial restraints which give one group a competitive advantage over the other.

There is no indication that any foreign country has ever made a "gift" to the U.S. of a market for any product produced in that country, and thereby deprived its own citizens of the opportunity of competing with the U.S. for such market. The U.S. has not asked for, nor obtained a competitive *advantage* for its products in any foreign market. It has asked for elimination of restraints which raised costs of U.S. products in foreign markets to a point where U.S. producers were at a competitive *disadvantage.*

Similarly, concessions made to foreign countries should be designed to enable foreign producers to compete on an equal basis with American producers for the American market. They should not enable foreign producers to take over the entire market because of lower labor costs, thereby depriving American producers of a market they have developed, and taking jobs away from American workers.

It is inevitable that the negotiation of trade agreements will result in inequities which will seriously injure specific domestic industries. This does not mean that the trade agreements should not be negotiated. It does mean that effective means of correcting such inequities must be provided. If a single American industry or even a single business or worker, is to be sacrificed to obtain concessions for the benefit of other businesses or workers, an effective means of compensating such sacrificed industry, business or worker should be devised. The taking of a business or of a worker's job to benefit other businesses or workers in the aid of the over-all national economy, cannot be distinguished from the taking of real property for an interstate highway. In the latter case, the Constitution requires that the owner be paid "just compensation". A man's business or job may be equally as valuable to him as his real property and when his business or job is taken for the benefit of others or in order to aid the national economy, he should be compensated.

The writer doubts that Congress is prepared to take such a radical step in order to provide foreign markets for specific businesses. However, if it does permit the President to do so by sacrificing other individual businesses, it has a moral, if not a legal obligation, to compensate the sacrificed businesses and the workers displaced as result. For the reasons heretofore set forth, the changes in the adjustment assistance provisions of the law proposed by the President will not be effective. Until the Congress is prepared to enact laws providing for such compensation, it is submitted that effective measures for preventing any such sacrifices must be enacted.

RECOMMENDATIONS

The Trade Expansion Act of 1962 should be amended so as to reestablish the peril point and escape clause procedures contained in the former law, ***but with mandatory provisions*** under which the President would be precluded from granting any concession below the peril point and would be required to proclaim such increased duties, or to impose such import quotas or other restrictions, as may be recommended by the Tariff Commission in escape clause actions. In the alternative, the Act should be amended in such manner as may be needed to assure domestic workers and industries of reasonable and *practicable* protection against injury, and effective compensation and assistance if their jobs and businesses are sacrificed for the over-all welfare of the country.

Appendix A

Producers of Slide Fasteners

Name and Address and location of factories:

Acme Associates, Inc., 21–03 44th Avenue, Long Island City 1, N.Y.
Adams Industries, Inc., 5–33 48th Avenue, Long Island City 1, N.Y.
William T. Carson Co., 2940–58 North Jasper Street, Philadelphia, Pa. 19134.
Coats & Clark, Inc., 430 Park Avenue, New York, N.Y. 10022; Albany, Georgia; Newport News, Va., and Warren, R.I.
General Staple Co., 28 East 22nd Street, New York, N.Y. 10010.
General Zipper Co., 38–15 32nd Place, Long Island City, N.Y. 11101.
Ideal Fastener Corp., 150 West Pine Street, Long Beach, L.I., N.Y. 11562.
National Fastener Corp., 5 West 31st Street, New York, N.Y. 10001.
Nynco Zipper Co., Div. of New York Notion Co., Inc., 123 Old Country Road, Carle Place, L.I., N.Y.
Pilling Chain Co., Inc., P.O. Box 37, West Barrington, R.I.
Prentice Corp., New Britain Road, Kensington, Conn.
Scovill Manufacturing Co., 140 Thomas Street, Newark, New Jersey and Greenwood, Miss.
Scovill Manufacturing Co., 99 Mill Street, Box 1820, Waterbury, Conn. 06720 and Clarkesville, Ga.
Seal Fastener Corp., 465 West 168th Street, New York, N.Y. 10032
Serval Slide Fasteners, Inc., 32 West 23rd Street, New York, N.Y. 10010
Slide-Rite Mfg. Co., 42–37 Crescent Street, Long Island City, N.Y. 11101
Talon, Inc., 626 Arch Street, Meadville, Pa.; Woodland, N.C.; Morton, Miss.; Cleveland, Ga.; Durant, Miss.; York, S.C., and Stanley, N.C.
Tape-Craft, Inc., P.O. Box 849, Anniston, Ala. 36201
Titan Zipper Co., Inc., 315 Seigel Street, Brooklyn, N.Y. 11206.
Ultra Slide Fastener Corp., 19 West 21st Street, New York, N.Y. 10010
Waldes Kohinoor, Inc., 47–16 Austel Place, Long Island City, N.Y. 11101
Zipper Products Corp., 126 13th Street, Brooklyn, N.Y. 11215

PRODUCERS OF CLOTHESPINS

Diamond National Corp., New York, N.Y., and Dixfield, Maine.
Forster Mfg. Co., Inc., Wilton, Maine and Mattawaumkeag, Maine.
National Clothespin Co., Montpelier, Vt.
Penley Brothers, West Paris, Maine

PRODUCERS OF FLAT VENEER PRODUCTS

Diamond National Corp., New York City, N.Y. and Oakland, Maine.
Forster Mfg. Co., Inc., Wilton, Maine and East Wilton, Maine.
Hardwood Products Co., Guilford, Maine.
Solon Mfg. Co., Solon, Maine.

Appendix B

City of Cleveland,
"City of Mountain Breezes,"
Cleveland, Ga., March 11, 1964.

Mr. L. R. Cooper,
Plant Manager, Talon, Inc.,
Cleveland, Ga.

Dear Mr. Cooper: The establishment of a plant by Talon, Inc. in the City of Cleveland in 1953 has provided jobs for the Citizens of our City which were not available prior to 1953.

The main source of income for our Citizens prior to your establishing a plant here, was the lumbering industry and poultry farming. These sources of employment were not enough to provide jobs for our Citizens and our population was decreasing at a rapid rate.

The jobs provided by your plant have affected our economy to the extent that we are now a progressive community. Approximately thirty new homes have been built within the City limits in the past ten years, we have been able to pave all of our streets, increased the capacity and modernized our water system, provided better lighting for the City streets and have attracted many new business establishments.

Taxes received by City in 1962 amounted to $14,028, as compared to $8,729, in 1953. This increase would not have been possible if Talon, Inc. had not provided the payroll for our people.

You can see from the above facts that if Talon, Inc. was to close its operations here in Cleveland that our Citizens now working for Talon or the service employees in other businesses who are dependent on your payroll would have to seek employment outside of this area and would be forced to move and sell their homes at a substantial loss. The fact that assessed valuations of property in the City would be decreased by the loss of Talon, Inc. would in turn require a much higher tax rate to carry the expenses of the City. This would discourage the location of another industry and force present businesses to relocate in other areas.

The loss of Talon, Inc. payrolls expended within the City would adversely affect merchants, doctors, restaurant operators, financial institutions, churches, etc. Therefore, the closing of your plant would be disastrous to our City and we sincerely hope that such a thing will never happen.

S. W. Reynolds, *Mayor.*

Appendix C

Office of Clerk Superior Court,
Cleveland, Ga., March 11, 1964.

Mr. L. R. Cooper,
Plant Manager, Talon, Inc.,
Cleveland, Ga.

Dear Mr. Cooper: I want to personally express my thanks to you and Talon, for locating the Plant in White County in 1953. Well do I remember the conditions that existed here prior to the establishment of your plant here. The only source of employment we had before Talon located here was from Portable Sawmills and Poultry growing which only gave a small amount of employment to our People.

The employment of our people by your plant has had a remarkable effect on the whole economy of our County. Many new businesses have been added, homes have been built or modernized and roads paved through every community in the County. As our youths finished school, they now have employment here in their own County, heretofore they had to seek employment elsewhere.

The valuation of property has made a considerable advance as many new modern homes have been built throughout the County.

If Talon should ever close its operation here I am fearful of what would happen to White County and its People. A great number of the People would be forced to sell their homes at a loss and seek employment elsewhere. It would also cause many businesses to close their doors.

If Talon should ever decide to close its plant here it would be a great disaster to our County. We sincerely hope that this will never happen.

Sincerely,

Clifford Campbell.

TABLE I.—SPRING AND STANDARD CLOTHESPINS

SUMMARY OF U.S. SHIPMENTS, IMPORTS AND APPARENT CONSUMPTION, 1947-67

Year	Domestic shipments			Imports			Domestic consumption			Percentage standard	Percentage imports					
											To shipments			To consumption		
	Spring	Standard	Total	Spring	Standard	Total	Spring	Standard	Total		Spring	Standard	Total	Spring	Standard	Total
1947	2,692	6,617	9,309	876	70	946	3,569	6,688	10,257	65	33.0	1.0	10	25	1.0	9
1948	2,832	5,950	8,782	1,064	10	1,074	3,897	5,960	9,857	60	38.0	(1)	12	27	(1)	10
1949	3,060	5,777	8,837	733	(2)	733	3,794	5,777	9,571	60	24.0	(1)	8	19	(1)	8
1950	3,898	6,774	10,672	984	(2)	984	4,883	6,774	11,657	59	25.0	(1)	9	20	(1)	9
1951	2,906	4,761	7,667	1,252	16	1,268	4,158	4,778	8,936	53	43.0	(1)	17	30	(1)	14
1952	2,894	4,997	7,891	790	2	792	3,684	5,000	8,684	57	27.0	(1)	10	21	(1)	9
1953	2,967	4,793	7,760	926	1	927	3,893	4,795	8,688	55	31.0	(1)	12	24	(1)	11
1954	3,069	4,406	7,475	1,165	(2)	1,165	4,235	4,406	8,641	51	38.0	(1)	15	28	(1)	13
1955	3,537	4,912	8,449	1,483	37	1,520	5,020	4,949	9,969	50	42.0	1.0	18	30	1.0	15
1956	3,731	4,857	8,588	1,558	44	1,602	5,280	4,902	10,182	48	42.0	1.0	19	29	1.0	15
1957	3,291	[3] 3,555	[3] 6,846	1,966	80	2,046	5,258	[3] 3,636	[3] 8,894	[3] 41	60.0	[3] 2.0	[3] 30	37	[3] 2.0	[3] 23
1958	3,779	3,910	7,689	1,710	157	1,867	5,490	4,068	9,558	42	45.0	4.0	24	31	3.8	20
1959	4,295	3,743	8,038	2,166	210	2,376	6,461	3,953	10,414	38	53.0	5.8	29	35	5.5	23
1960	4,264	3,471	7,735	1,986	345	2,331	6,250	3,816	10,066	38	47.0	10.0	30	31	9.2	23
1961	4,565	3,534	8,099	2,024	361	2,385	6,589	3,895	10,484	37	44.0	10.2	29	31	9.2	23
1962	4,559	3,146	7,705	2,528	331	2,859	7,087	3,477	10,564	33	55.0	10.5	37	36	9.5	27
1963	4,687	2,829	7,516	1,897	279	2,176	6,584	3,108	9,692	32	40.0	9.8	29	29	9.0	22
1964	4,970	2,895	7,865	2,019	365	2,384	6,989	3,260	10,249	32	40.6	12.6	30	29	11.2	23
1965	5,629	2,649	7,678	2,234	235	2,469	7,263	2,884	10,147	28	44.0	8.9	32	31	8.1	24
1966	5,081	2,481	7,562	2,016	187	2,203	7,023	2,651	9,674	27	40.0	7.5	29	28	7.0	23
1967	4,942	2,182	7,124	2,159	239	2,398	7,102	2,421	9,522	25	44.0	10.9	34	30	9.9	25
Averages:																
1947–56	3,158	5,384	8,542	1,083	18	1,101	4,241	5,402	9,643	55	34.0	(1)	13	25	(1)	11
1957–61	4,039	3,642	7,681	1,970	231	2,201	6,009	3,874	9,883	39	48.0	6.3	29	33	6.0	22
1962–67	4,878	2,697	7,575	2,142	273	2,415	7,020	2,970	9,990	29	43.0	10.0	32	30	9.0	24

[1] Less than 1.
[2] Less than 1,000.
[3] Incomplete

Mr. Burke. Thank you, Mr. Tilden. Are there any questions?

Thank you. We appreciate your testimony.

Mr. Tilden. Thank you.

Mr. Burke. Is Mr. Myron Solter here?

Mr. Solter, you are recognized for 10 minutes, and if you wish to summarize your statement your entire statement will appear in the record. If you will please identify yourself for the record you may proceed.

STATEMENT OF MYRON SOLTER, SAFETY PIN AND STRAIGHT PIN DIVISION, PIN, CLIP, & FASTENER ASSOCIATION

Mr. Solter. Mr. Chairman, my name is Myron Solter. I am a lawyer in Washington and I appear before the committee today on behalf of the Safety Pin and Straight Pin Divisions of the Pin, Clip & Fastener Association and, as you have indicated, Mr. Chairman, I would request that my prepared statement in full be incorporated in the record.

Mr. Burke. All right.

Mr. Solter. I will only summarize the points of the statement orally for the committee.

The safety pin and straight pin industries appreciate very much this opportunity to express to the committee the industry's most serious concern, and we do stress "most serious."

During the period 1951–55 imports of safety pins amounted on the average to 21 percent of total apparent consumption in the United States. During 1967 imports accounted for 35 percent of total apparent consumption of safety pins in the United States.

Even more striking, straight pins during 1951–55 imports accounted for 12 percent of total apparent consumption. During 1967 the participation of imports of straight pins and total consumption had risen to 42 percent.

The total consumption of pins, both safety pins and straight pins, in the United States has remained relatively static during the past 20 years. The increase in imports has cut directly into the market of the domestic industry. It is not evident from the bare statistics, but I need not belabor to this committee the fact of increased industrial costs over the last 15 years or so.

The industry is in a very difficult cost-price squeeze in consequence of the gradually intensifying import competition which has held price levels virtually constant over the past 12 years in the United States.

Thus, the problem is not whether the pin industry in the United States faces extinction. That is virtually a certainty at some point in the future. The problem is what, if anything, as a matter of public policy, to do about it; that is, whether industries such as the pin industry in this country should be allowed to be extinguished by imports as a matter of public policy or whether a line should be drawn somewhere short of extinction.

We are sure, and I think we may all be sure, that none of our major trading partners will suffer destruction of any significant industries in their territories by exports from the United States. We believe that it is time to realize that the same policy of self-interest should be pursued by the United States and we believe that such realization is present in the Congress at this time.

We therefore assume, or hope we may assume, that the public policy of the United States, is, or shall be, to draw a line short of extinction of domestic industries which face difficult import competition.

I address my remarks now to the question of how this may be accomplished. Fundamentally there are two approaches from the point of view of the pin industries. There are the existing remedies on the statute books and administered by the executive agencies, and there is the second approach of new legislation.

Now, in our opinion, and we have examined carefully over a period of several years all of the existing remedies, none of the existing remedies as presently administered is effective to afford any protection to the pin industries from import competition.

We believe that new legislation is indispensible. Specifically we believe, first, as to mandatory import quotas, there are before the Congress a large number of specific import quota bills addressed to named commodities. No such bills apply to pins.

There are also before the Congress two omnibus import quota bills, H.R. 16936 and H.R. 17674. The pin industries support both of these bills but recommend three changes in Mr. Herlong's bill, H.R. 16936, and one change in H.R. 17674, Mr. Collier's bill.

First, as to Mr. Herlong's bill, the basic year for eligibility for a ceiling is the calendar year 1960. We would recommend that, principally because safety pins fortuitously are left out completely from the coverage of this bill, that the base year be changed to 1960 or the annual average of the period 1958–62, whichever should be the lower.

Secondly, safety pins would still not be covered by the language of the bill adequately and we would recommend that section 5(b) of Mr. Herlong's bill be changed to omit the words "but not more than 15 per centum."

And, third, with respect both to H.R. 16936 and H.R. 17674, we recommend an antiretaliation provision. There is a great deal of talk, there has been and there always is, of retaliation by the U.S. trading partners in the event of imposition of mandatory import controls.

We believe retaliation is greatly exaggerated because for most of the U.S. major trading partners their exports to the United States are considerably more important to them than are imports to the United States from those countries or vice versa exports from the United States.

Nonetheless, an antiretaliation provision would be desirable. By that I mean a provision in effect stating that the ceilings would be lowered if the retaliation by any particular supplying country should exceed in value the amount of trade reduced by operation of any quota under this legislation.

Next, a few words about the escape clause. Now, again, it is well known to the committee that the criteria for tariff adjustment under the escape clause as contained in section 3401 of the Trade Expansion Act has not operated, despite some 21 trys by domestic industries, to afford relief to anyone over the past 7 years of its existence.

The reason for this is obviously that the "major part" and "major factor" criteria are unworkable. The administration has recognized this insofar as firm and worker adjustment assistance criteria are concerned and it recommended a change in those criteria to make it easier for workers and firms to become eligible under import competition for adjustment assistance.

Well, we think that is a good idea, but we also think that to keep the escape clause from being completely a dead letter those same amended criteria should be extended as well to the escape clause and to make it equally easy, if that is the word to be used, for domestic industries as a whole to become eligible for tariff adjustment, as individual firms and groups of workers become eligible for firm and worker adjustment assistance.

The reason for that, we think, is that, while individual firms and groups of workers in some industries may be damaged simply because of localized inability to compete and therefore merit some selective aid in the nature of adjustment assistance, nonetheless, where entire industries are unable to compete the application simply of adjustment assistance is in effect a subsidization by the United States out of Federal funds of the exporting industries in other countries to the United States.

Next the countervailing duty statute. We believe that there are a number of unfair trade practices, primary among which is remission of added value taxes in the Common Market countries, and similar such export incentive schemes which exist in a great many countries, that operate to give unfair advantage to a variety of exported products to the United States and to pins from several countries.

The statute is quite clear, and the Supreme Court's interpretations of the countervailing duty statute are quite clear, that remission of such taxes as added value taxes is within the scope of the statute.

However, the Treasury's practice in administering the statute over the years has been that remission of such internal indirect taxes does not constitute a grant or bounty within the meanings of the statute and Treasury declines to impose countervailing duties in this situation.

We believe the Congress should reaffirm its original intent and as interpreted by the Supreme Court in some suitable fashion, perhaps by resolution, in such a way that the Treasury would be constrained to administer and enforce the statute as orignally intended and as would be appropriate in today's circumstances.

Last, we anticipate that a bill introduced not long ago by Senator Mondale on the Senate side entitled the "Czechoslovakian Trade Act" will eventually come before this committee. We would like just to comment on that.

While we are concerned because a great many pins are coming into the United States in increasing quantities from Czechoslovakia without benefit of most-favored-nation duty rates, we generally as an industry, that is, the safety pin-straight pin industries, support foreign policy initiatives which tend to improve relationships between the United States and the Communist countries.

However, we think it completely inappropriate that such objectives be accomplished by authorizing the President to enter into trade act negotiations with countries such as Czechoslovakia, in effect to reduce duties without even the preliminary safeguards of reservation of articles from negotiations, mandatory and discretionary, that are contained in the Trade Expansion Act. There are no reservation procedures provided for in Senate Mondale's bill.

We would urge that if this legislative matter comes before this committee, and we may probably expect that it will eventually, at the very least such further authorization of the President to enter into trade negotiations must contain a reservation provision similar to, or incorporate by reference, those provisions presently existing in the Trade Expansion Act as a very minimum to protect domestic industries.

That concludes my remarks.

(Mr. Solter's prepared statement follows:)

STATEMENT OF MYRON SOLTER, SAFETY PIN AND STRAIGHT PIN DIVISIONS, PIN, CLIP, AND FASTENER ASSOCIATION

Mr. Chairman, members of the Committee—my name is Myron Solter. I am an attorney in Washington, D.C. It is my pleasure to appear before the Committee today on behalf of the Safety Pin and Straight Pin Divisions of the Pin, Clip, and Fastener Association, headquartered in New York. The Association embraces within its membership virtually all production of safety pins and straight pins in the United States. A list of the member firms is appended.

The safety pin and straight pin industries wish to convey to the Committee their most solemn concern over the progressive capture of the market for their products in the United States by foreign competitors, to stress their frustration with the present wholly inadequate remedies against excessive import competition, and to urge the Committee to frame legislation which will afford an equitable balance between the interests of American industry and our foreign trading partners.

The American producers of safety pins and straight pins have witnessed, over the past fifteen years, a steady, irresistible, and irreversible erosion of their market in the United States by imported safety pins and straight pins. As is seen from the appended statistical table, safety pin imports rose from an average of approximately 20 percent of total apparent consumption during the period 1951–1955 to about 35 percent at the present time, despite a suspension of the preferential trade agreement duty rate during the period between 1958 and 1965 by operation of the escape clause. Similarly, straight pins, not having had the benefit of even the limited tariff protection afforded to safety pins, have risen during the same period from an average of about 11 percent to nearly 42 percent of total apparent consumption.

The intrinsic economics of safety pin and straight pin manufacture and marketing offer no escape from the progressive takeover of the market by the foreign producers.

Determined by their use patterns, the market for these products is rather inelastic and tends thus to be static. For example, average annual consumption of safety pins, both domestic and imported, during the period 1951–1955 was 13.8 million gross; during the period 1963–1967, annual consumption averaged only 13.6 million gross. Similarly, annual consumption of straight pins during the period 1951–1955 averaged 3.3 million pounds, while during the period 1963–1967 annual consumption averaged only 3.2 million pounds.

Because of the simplicity of the products, there is virtually no room for superior American technology and know-how to create any further relative cost advantages in manufacture. Because safety pins and straight pins are uniform products, with few quality differences between domestic production and imports and virtually none recognizable by end users, buyers are responsive to very small price changes. Generally speaking, one seller gains business only by a corresponding loss of business to another seller. In competition among domestic producers and distributors, this characteristic of the industry is endurable because all have roughly comparable cost patterns. Imported safety pins and straight pins, however, enjoy always the possibility of significant cost advantages over domestic production, in part because of lower labor costs and in part because of other lower costs, such as materials.

All these factors combine to make the domestic industry hypersensitive to import competition, since in imports there can easily exist sufficient cost advantage to capture the entire U.S. market. Imports, thus, are for the domestic pin industry not merely a competitive nuisance, but are a constantly dangling sword of Damocles, which, in the absence of adequate tariff protection, can fall at any time to sever the domestic industry from its market.

Therein lies the problem.—If the foreign takeover of the American safety pin and straight pin market continues—unless this Committee and the Congress devises more adequate remedies to excessive import competition such a continuation is a certainty—the American producers will in the not very distant future obviously find themselves out of this business—and the workers engaged in producing these articles will find themselves confronted with the unhappy alternatives of retraining, relocation, or relief.

Background in brief

Safety pins are manufactured by five firms in the United States; straight pins are produced by seven firms. While safety pins and straight pins constitute separate industries, in four instances both products are produced by the same firms. Safety pins and straight pins are manufactured by high-speed, virtually automatic metal forming machinery. Labor cost was found by the Tariff Commission in 1957 to constitute approximately 40 percent of the average unit cost of domestic safety pin and straight pin production, which relative factor has probably since declined under the spur of cheap import competition.

Both industries are concentrated in Connecticut with one substantial manufacturing facility in Tennessee, which industry concentration has naturally the effect of concentrating the impact of adverse economic experience suffered by domestic producers from import competition.

Safety pins and straight pins have a considerable tariff history which it is appropriate to review briefly here. On both articles, duty in the reference year of 1934 was 35 percent ad valorem. In the course of several duty concessions, and particularly the initial GATT concessions of 1948, the duty rate was reduced to 22½ percent on safety pins and to 20 percent on straight pins.

In consequence of these reductions, both industries were suffering serious adverse consequences from increasing imports by the mid-1950's and applied to the Tariff Commission in 1956 for escape clause relief. After lengthy and intensive investigation, the Tariff Commission recommended that the duty be restored to the pre-concession rate of 35 percent on both safety pins and straight pins. Striking balance on a Solomon's judgment, the President granted the recommended relief in the case of safety pins, but denied any relief to straight pins.

Safety pins benefited from the limited protection of the 35 percent rate for eight years. On January 28, 1966, however, by Proclamation No. 3703 the President restored the preferential trade agreement rate, which had the effect of reducing the duty from 35 to 22½ percent.

The relative economics of the manufacture and marketing of safety pins and straight pins is such that price is ultimately the principal determinant of sales.

Very little difference in quality exists between pins of domestic manufacture and pins imported from Great Britain and West Germany, and users are for the most part unable to discern differences at all. After all, a safety pin is a fairly simple article and a straight pin is an utterly simple article. While there are in the short run other marketing factors such as historical relationships, brand names, promotions, etc., ultimately it is price which determines sales, and even a 2 or 3 percent drop below established price differential levels is sufficient to shift business.

Demand and hence consumption of both safety pins and straight pins in the United States is fairly static. The industry has in recent years made a determined effort to promote the increased use of pins in industrial applications, with some limited success. The home consumption market is considered impossible to stimulate to further consumption.

The inevitable consequence is that, when foreign producers offer sufficient quantities at even slightly lower prices on the American market, there is a direct and immediate loss of business by domestic producers.

Both the safety pin and straight pin industries live thus at the mercy of the foreign producers, spared so far from extinction only by the preoccupation of foreign pin manufacturers with home and third country markets.

In the case of safety pins, an apparent equilibrium between domestic production and imports was created in their relative shares in total safety pin consumption in the United States at the 35 percent duty level. That relationship during the period from 1958 through 1965 was characterized by the Tariff Commission in the following terms:

"Though there have been year-to-year fluctuations in the intervening period, U.S. consumption has changed very little. Prices for domestic pins, too, are now basically the same as they were in 1956, although there have been several increases and decreases. The ratio of imports to apparent domestic consumption also has held fairly steady, averaging about 25 percent. The price spread between the imported and domestic articles, although narrower on most categories of pins than before the duty increase, has been roughly maintained in recent years . . . Hence we are here considering a small, highly concentrated, static, low-capital industry producing a high-volume, low-price standard item which can be readily imported." *Safety Pins*, Report to the President on Investigation No. TEA–IA–6, TC Publication 155, May, 1965, p. 5.

The basis of that equilibrium was destroyed by the President's restoration of the 22½ percent rate in January, 1966.

In the case of straight pins, there has not been even that limited period of relative equilibrium. The trend of straight pin imports over the past 18 years has been steadily upward, while the trend of domestic sales has been steadily downward.

Accordingly, the American safety pin and straight pin industries are being pushed inexorably toward a point in the near future at which it will no longer be feasible as a matter of reasonable business management to continue these lines of manufacturing in the United States. Henceforward, the total American market will have to be supplied by imports—*unless* there is created an adequate protective remedy.

Mandatory import quotas as a solution

A number of bills have been introduced in both houses of the Congress which would impose mandatory import quotas on specific, named products. Two bills, H.R. 16936 by Mr. Herlong and H.R. 17674 by Mr. Collier, would impose import quotas on any imported product when imports should attain certain percentage relationships to domestic consumption.

All of these bills have the object of assuring imports access to, and a fair share of, the United States market, with what constitutes a fair share determined by the pattern of trade over the past 8 years in the case of H.R. 16936 and the past 3 years under H.R. 17674.

The safety pin and straight pin industries believe that such mandatory import quota legislation is desirable and generally support these two bills. However, we would suggest two changes in H.R. 16936 and one change in H.R. 17674.

Because imports of safety pins and straight pins had already developed relatively high levels by the time of the base years selected for these two bills, the ceiling or restraint levels do little more than assure these two industries of survival. Neither bill affords a means of recapturing markets lost in the past.

H.R. 19636 would limit straight pin imports to about 38 percent of total apparent consumption, which represents a slight roll-back from the level attained in 1967.

However, under this bill safety pins would not be entitled to any protection at all, because, fortuitously, safety pin imports during the base year 1960 represented a considerably higher percentage of apparent consumption than in either the immediately preceding or succeeding years.

The selection of one year, alone, as the base point could produce anomalous results. We therefore suggest that it would better serve the intended purpose of this legislation to bracket 1960 as the reference point by providing that the base year for the purposes of section 5 of the bill shall be the calendar year 1960, or the annual average of the years 1958–1962, whichever should be the lower.

Even this broadening of the base period, however, would still leave safety pins not covered. We therefore further suggest that the words "but not more than 15 percentum" be omitted from section 5(b) of the bill. That change would make safety pins eligible for a ceiling at least equal to the import level of the most recent year, which level in 1967 was about 35 percent of total apparent consumption.

A second difficulty occurs to us with respect to both H.R. 16936 and 17674—these bills are non-selective, would doubtless be considered by most other countries to violate the United States' obligations under the General Agreement on Tariffs and Trade, and might very well provoke the retaliation which has already been threatened.

It would thus be desirable to include in this legislation an antiretaliation device, by providing for a further lowering of import ceilings in the way of counter-retaliation in the event of a retaliatory reduction by any affected country of imports from the United States by a value greater than the reduction under this legislation.

It might be objected that such a device invites a self-defeating trade war. We do not think so. To most of this country's major trading partners, their exports to the United States are relatively more important than are imports from those countries to the United States. For 20 years, the United States has led the world in giving away its markets to stimulate world trade expansion. But the present dramatic payments crisis forceably recalls to us that the balance has gradually shifted—it is time to tighten the protective belt, at reasonable levels, before it is altogether too late.

Accordingly, the proposed general import quota legislation, with the indicated changes would preserve some 58 percent of the U.S. straight pin market to the American industry and some 65 percent of the U.S. safety pin market to the American industry. That is reasonable. We therefore, support this legislation.

However, if mandatory import quota legislation proves to be not possible, then we urge more effective selective remedies in the form of the escape clause and the countervailing duty.

The criteria for escape clause relief must be revised

Under the existing escape clause, as contained in section 301 of the Trade Expansion Act of 1962, there appears to be no relief for the safety pin industry, the straight pin industry, or indeed for any other American industry from excessive imports. The ineffectiveness of the escape clause to provide "escape" from the effects of intolerable import competition results primarily from the "major part" and "major factor" tests introduced in the 1962 Act. It is these two criteria which have led the Tariff Commission to deny escape clause relief to some 21 industries since 1962.

If the straight pin and safety pin industries are to have any effective remedy under the escape clause of the GATT, the implementing statute in this country will have to be amended.

The Administration, in its proposed "Trade Expansion Act of 1968", now before this Committee as H.R. 17551, in effect recognizes the unworkability of the present tests. H.R. 17551 would strike from section 301(c) of the Trade Expansion Act under which eligibility of firms and workers for adjustment assistance is determined, the "major part" and "major factor" tests, and would substitute therefor the simple test of "increased quantities of imports" having been "a substantial cause of serious injury, or the threat thereof" to a firm, or "a substantial cause of unemployment or underemployment, or the threat thereof" to workers.

H.R. 17551 does not propose that the criteria for eligibility of an industry for tariff adjustment under section 301(b) of the Trade Expansion Act (escape clause) be similarly amended. The Administration bill would retain, when industry demands tariff relief, the patently unworkable "major part" and "major factor" tests.

There is pending before this Committee a bill introduced by Mr. Whalley in June of last year, H.R. 10729, which would amend the test of eligibility for tariff relief under the escape clause to "increased imports, either actual or relative" have "contributed in any substantial degree toward causing, or threatening serious injury," to a domestic industry, and would make mandatory on the President the finding and recommendation of the Tariff Commission.

The straight pin and safety pin industries believe that the escape clause must be amended along the lines of Mr. Whalley's bill.

It could be objected that this bill would deprive the President of needed discretion in dealing with foreign trade policy questions. If such objection is valid, then at the very least the escape clause should benefit, and import-stricken industries with it, from the same amendments which the President would apply to the criteria for eligibility for adjustment assistance.

We can understand the utility and public desirability of refraining from imposing import restrictions when some part of a domestic industry does not have the market strength to endure intensified competition from increased imports, and working justice instead of financially aiding both firm and workers to make the transition to another line of business and employment.

What public policy is so imperative, however, that *entire* industries, such as the safety pin and straight pin industries, must be erased from the American scene for the sake of so-called free trade? The adjustment assistance device affords no acceptable remedy to situations where, as here, imports are steadily undermining the foundation of the entire industry, not just individual firms and workers. In this instance, the application of adjustment assistance would amount simply to the subsidization with federal funds—our tax dollars—of the pin industries of Europe, Japan, and increasingly the Communist bloc countries.

What is needed is the restoration of an effective escape clause—a thing that has not existed for the last six years. To that, our trading partners could not object, for we should only be exercising the same right of escape under the GATT in the same spirit of self-interest as the other GATT signatories. We may be sure that most other countries will not suffer existing significant industries within their territories to be destroyed by imports of competing articles from the United States. The United States can no longer afford to act in anything other than the same spirit.

We urge, therefore, that the Committee weigh most carefully the proposals contained in Mr. Whalley's bill, or in the alternative to extend the President's excellent amended tests of eligibility for adjustment assistance to the escape clause, as well.

The countervailing duty statute—A dead letter which the Congress should revive

In 1903, the United States Supreme Court said:

> "When a tax is imposed upon all [merchandise] produced, but is remitted upon all [merchandise] exported, then, by whatever process, or in whatever manner, or under whatever name it is disguised, it is a bounty upon exportation."[1]

and under the statute (19 USC 1303) requires the imposition of a countervailing duty.

The Treasury states the position which it follows in administering this section—

> "Remission of internal taxes borne by a product is one method by which a bounty or grant can be bestowed indirectly. If the remission does not exceed the amount of taxes previously paid, however, then such remission is not considered a bounty or grant." GATT, *Antidumping and Countervailing Duties*, July, 1958, p. 139.

The countries of the Common Market have erected a system whereunder imports from the United States are subjected, in addition to regular import duty, to the levy of a border tax equal to the amount of internal, "indirect" TVA taxes on competing products manufactured in the importing country. Conversely, exports from that country to the United States benefit from remission of those same taxes upon exportation.

Numerous other countries have analogous methods of stimulating exports and directly or indirectly penalizing imports by remitting or not collecting internal fiscal obligations.

We believe that remission of TVA taxes and similar obligations, which have the effect of making exports from those countries even more competitive in the American market, constitute "grants or bounties" within the meaning of the countervailing duty statute and should be subjected thereunder to offsetting countervailing duties.

However, the Treasury has for many years ignored the manifest intent of the Congress and the interpretation of the Supreme Court, and has proceeded to apply this statute in accord with the wishes of the major GATT signatories employing this detrimental export incentive system, despite the fact that such interpretation and administration grossly contravenes the command of the Congress and the courts.

Effective remedies to unfair import competition must be found. The countervailing duty statute affords at least a partial remedy to one aspect of unfair competition, a remedy *in existence* which does not require new legislation. What is required, however, is something in the nature of a resolution of the Congress reaffirming its intent in such terms that the Treasury will be constrained to administer it in accord with such intent and the plain meaning of the statute.

The President should not be granted authority to extend most-favored-nation duty rates to Communist countries without adequate safeguards to import sensitive industries

Senator Mondale, on May 17th of this year, introduced a bill, S. 3515, denominated the "Czechoslovakian Trade Act of 1968". Anticipating that this question will doubtless come before this Committee, we wish to comment on the purpose of S. 3513.

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[1] *Downs* v. *United States,* 187 U.S. 500.

In effect the bill would abrogate the existing prohibition on reciprocal tariff reducing agreements with the Communist countries as it presently applies to Czechoslavakia and would authorize the President to extend most-favored-nation duty rates to that country.

The safety pin and straight pin industries generally favor foreign policy initiatives which may have the effect of improving relations and easing tensions between the United States and the Communist countries of Europe.

However, both safety pins and straight pins are being imported in ever-increasing quantities from Czechoslovakia, without the aid of any preferential duty rates.

We would object most strenuously to the granting to the President of authority to intensify that already damaging competition from Czechoslovakia by further lowering the duty on Czechoslovak pins. Since the Czechs have already demonstrated the ability to compete most effectively in safety pins and straight pins in the U.S. market at non-preferential duty rates, and given the manifest distress of the domestic pin industry, pins should be expressly reserved from any such grant of trade negotiating authority.

At the very least, the provisions for mandatory and discretionary reservation of articles from negotiation contained in section 225 of the Trade Expansion Act must be incorporated as well into any and all further grants of trade negotiating authority to the President.

LIST OF MEMBER FIRMS

1. Safety Pin Division; Pin, Clip and Fastener Association:
   Oakville Division, Scovill Manufacturing Co., Oakville, Connecticut.
   Risdon Manufacturing Co., Naugatuck, Connecticut.
   Star Pin Company, Shelton, Connecticut.
   William Prym, Inc., Dayville, Connecticut 06241.
2. Straight Pin Division; Pin, Clip and Fastener Association:
   Acco Division, Gary Industries, Inc., 5150 N. Northwest Highway, Chicago, Illinois.
   Noesting Pin Ticket Co., 728 E. 136th Street, New York, N.Y.
   Oakville Division, Scovill Manufacturing Co., Oakville, Connecticut.
   Risdon Manufacturing Co., Naugatuck, Connecticut.
   Star Pin Company, Shelton, Connecticut.
   Union Pin Co., Winsted, Connecticut.
   William Prym, Inc., Dayville, Connecticut 06241.

STATISTICAL APPENDIX

SAFETY PINS (MILLIONS OF GROSS)

Year	Domestic shipments	Imports	Apparent consumption	Percent of imports of apparent consumption
Average 1951 to 1955	10.8	2.9	13.7	20.6
1960	7.6	4.6	12.2	37.5
1961	8.2	3.6	11.9	30.4
1962	8.7	4.1	12.8	32.0
1963	8.3	4.2	12.5	33.6
1964	9.4	3.8	13.1	29.0
1965	9.5	4.9	14.4	34.0
1966	9.5	4.3	13.8	31.0
1967	9.2	4.9	14.1	34.6

STRAIGHT PINS (MILLIONS OF POUNDS)

Year	Domestic shipments	Imports	Apparent consumption	Percent of imports of apparent consumption
Average 1951 to 1955	2.9	0.4	3.3	11.7
1960	2.0	1.0	3.0	33.7
1961	2.0	1.1	3.1	34.9
1962	2.1	1.0	3.1	33.0
1963	2.0	1.1	3.1	34.5
1964	2.1	1.1	3.2	33.6
1965	2.2	1.2	3.4	35.9
1966	2.0	1.3	3.3	38.9
1967	1.8	1.3	3.1	41.9

Note: Exports have been minimal and are omitted.

Source: U.S. Tariff Commission; Bureau of the Census; Pin, Clip, and Fastener Association.

Mr. BURKE. Thank you very much. Are there any questions, Mr. Bush?

Mr. BUSH. What percentage of your total cost in this country is labor of your final product, sir?

Mr. SOLTER. In 1957 the Tariff Commission found it to be 40 percent. We think it is lower now because under pressure of import competition more labor cost reducing efficiencies have been introduced since that time. It is probably, we think, between 35 and 38 percent.

Mr. BUSH. What percent of the imported pin would be labor costs? Is the labor the main difference in why you have trouble competing?

Mr. SOLTER. No. This is not a labor-intensive industry. It is a high productivity machine operation. It is capital-intensive, but labor does constitute a substantial and significant portion of cost.

Mr. BUSH. Thank you, sir. Thank you, Mr. Chairman.

Mr. BURKE. Any further questions?

Thank you very much, Mr. Solter.

That completes the testimony for the pin and fastener industry. The next industry is the aircraft industry, Mr. Donald W. Douglas, Jr.

We welcome you, Mr. Douglas, and if you will identify yourself for the record you may proceed.

STATEMENT OF DONALD W. DOUGLAS, JR., VICE PRESIDENT, McDONNELL DOUGLAS CORP.

Mr. DOUGLAS. Thank you, Mr. Chairman. My name is Donald W. Douglas, Jr. I am president of Douglas Aircraft Co. of Santa Monica, Calif., and vice president of McDonnell Douglas Corp. of St. Louis, Mo.

I will be extremely brief.

McDonnell Douglas manufactures commercial and military aircraft and is an active participant in the Government's military and spacecraft program. At the present time we have 49 locations in 16 States and employ 132,000 people. We also have a plant in Malton, Ontario, Canada, where we manufacture the wing and tail assemblies for our DC–9 airplane and where we will be making some of the components for the DC–10, our 300 passenger trijet. The completed DC–9 sells for about $4 million and the DC–10 will sell for approximately $16 million.

At the outset, let me say that our company strongly supports the liberal trade policies enunciated by the Trade Expansion Act of 1962 and the proposed Trade Expansion Act of 1968 recently transmitted to the Congress by President Johnson. The position of our industry as stated by the Aerospace Industries Association, of which we are a member, is that we strongly support reciprocal free trade under equitable competitive conditions.

The aerospace industry is one of the largest manufacturing export industries in the United States with exports in 1967 of over $2 billion, accounting for over 40 percent of the Nation's merchandise trade surplus.

But, domestic and export sales of airplanes are based on the same principles as any other sales—an attempt to develop the best product at the lowest competitive cost. Seen in this light, the tariff that we must pay on our components from Canada is an added inflationary cost factor that is not needed as a protective device for American industry and acts to inhibit our competitive position. Moreover, the procedures necessary to assure precise compliance with the tariff requirements present a formidable administrative problem.

The 4,100 employees in our Malton plant represent a necessary supplement to our U.S. operation. We feel that our industry is a continental industry and with skilled labor in short supply, its efficient development should not be impaired by tariff barriers that are no longer needed.

Now, I would like to talk about nontariff trade barriers for a moment. Our association has given extensive testimony on this subject, but I would like to point out that the largest single nontariff barrier is sales resistance. If the potential customers says "no," the other barriers do not make any difference. There is a growing tendency in international markets for the foreign purchaser to buy only if a plant is set up in his country to manufacture some component of the airplane, thereby allowing that country a direct participation in the international aircraft industry. At the same time, this encourages development of skilled manufacturing jobs for the customer country's labor force, which is much preferred to a situation where jobs are restricted to primary industry alone. We believe that establishment of these satellite plants has helped export sales and will continue to do so.

Our wing and tail assemblies made in Canada are manufactured primarily from aluminum made in Davenport, Iowa, and shipped to Malton. The assemblies enter the United States where a duty (currently 8 percent under TSUS item 694.60) is paid on the value added in Canada. This rate is scheduled to be reduced in annual stages, as a result of the Kennedy round, until it reaches 5 percent in 1972.

Section 253 of the Trade Expansion Act of 1962, which provides that Kennedy round cuts be applied in five annual stages, undoubtedly serves a very useful purpose in minimizing competitive impact in many instances. But, in our industry, we feel this protection is not needed and merely adds an unnecessary cost factor. We hope some way can be found to accelerate this staging schedule.

At the same time, we hope that a way can be found to authorize immediate negotiations, under the safeguards of the Trade Expansion Act, to bring this duty even lower and to eliminate it if at all possible. We believe this is vital to our competitive position in world markets and the sooner we can move in this direction, the better.

It is for the above reasons that McDonnell-Douglas strongly supports H.R. 17768, introduced by Congressman King on June 11. This bill authorizes negotiations with Canada that could result in eliminating duties where Canada supplies 75 percent of the U.S. imports of a given article and has also reduced her duties in fair payment for the concession. We urge enactment of this legislation.

Thank you.

Mr. Burke. Since you have referred to Mr. King's bill and since he was unable to be here today, I suggest, if there is no objection, that the record be kept open at this for any statement or material our colleague, Mr. King, may care to submit with respect to his bill.

(Mr. King subsequently requested that his letter of February 13, 1968, to Mr. John M. Martin, Jr., chief counsel, Committee on Ways and Means, copies of which were transmitted to interested departments and agencies, together with the replies of the various departments and agencies, be inserted in the record at this point. This material follows, together with a letter directed, at the request of Mr. King, to the chairman of the Committee on Ways and Means from Mr. John R. Allen, vice president, eastern region, McDonnell Douglas Corp.)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., February 13, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. MARTIN: For some time I have had under consideration a proposal to strengthen the economies of, and trade ties between, the United States and Canada by negotiating further reductions and/or elimination of tariffs between our two countries in certain indicated areas. I have in mind not only prospective negotiations, but also possible Congressional waiving of staging requirements on concessions already made in the Kennedy Round.

I am particularly interested in proposed reductions in the aircraft and aircraft components sectors, since it would seem that treatment of North America as an economic unit in production of aircraft would increase the export potential of our producers in world markets and have a resulting beneficial effect on our national balance of trade at a very critical time. In this context, waiver of the staging requirements referred to above is of key current importance.

Would you therefore please forward this idea for study by our Committee staff and appropriate departments, for report back to you, both as to the possibilities involved and their views thereon, by April 15.

It is my intention to bring up this subject matter at appropriate Committee hearings or executive sessions this spring, and I would like to have the benefit of in-depth study in advance as well as departmental and staff views at the time the subject is discussed by the Committee.

Thank you, with all good wishes.

Sincerely,

CECIL R. KING, *Member of Congress.*

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., May 2, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. MARTIN: Congressman Cecil R. King, by letter to your office dated February 13, 1968, has requested the views of this Department on a general proposal to further reduce and/or eliminate tariffs between the United States and Canada with respect to aircraft and aircraft components. By letter dated February 15, 1968, your office transmitted to us a copy of Congressman King's letter containing a generalized outline of the proposal under consideration by the Congressman.

While this Department has a continuing interest in the expansion of trade, it does not have, of course, specific knowledge of the aircraft and aircraft component sector of American-Canadian trade, nor is it able to judge the significance of this trade in terms of trade with the other aircraft-producing nations or in the overall framework of American foreign trade.

The Bureau of the Budget has advised that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely yours,

J. C. MCCASKILL,
Deputy Assistant Secretary of the Interior.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., April 30, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. MARTIN: This is in further response to your letter to Secretary Fowler concerning the Treasury Department's views on the Honorable Cecil R. King's proposal to further reduce or eliminate tariffs on Canadian-U.S. trade in aircraft and aircraft components.

This Department is most interested in any proposal which would strengthen the economies of, and the trade ties between, the United States and Canada. In examining such proposals, however, the Treasury Department must take into consideration the short-term as well as the long-term balance-of-payments effects.

There would appear to be three possible alternatives for achieving the reduction or elimination of duties on aircraft and aircraft components traded between the United States and Canada. They are:

1. Bilateral negotiations with Canada designed to reduce existing duties. Such duty reductions would have to be applied on a most-favored-nation (MFN) basis by both the U.S. and Canada to all GATT members, or else a GATT waiver would have to be obtained.
2. An agreement with Canada similar to the U.S.-Canadian Automotive Agreement. This also would require the procurement of a GATT waiver.
3. Acceleration of duty reductions negotiated under the Kennedy Round. Such an acceleration would also have to be applied on an MFN basis or require the procurement of a GATT waiver.

The Kennedy Round negotiations provided for substantial reduction in the duties on aircraft and aircraft components. The U.S. duties were reduced by 50 percent and will be in the range of 4–5 percent when the final Kennedy Round stage is implemented in 1972. Canada also cut duties by 50 percent, with rates being reduced from 15 percent to 7½ percent. Other major importing countries made comparable cuts.

There is a general question as to the desirability of further duty reductions by the United States at this time. Also, obtaining a GATT waiver for a preferential arrangement between the United States and Canada would be very difficult.

A number of factors need to be considered in order to ascertain the immediate balance-of-payments effects of further duty cuts by the United States and Canada on aircraft and aircraft components. Duty reductions would only apply to imports of commercial aircraft and parts. Approximately 80 percent of U.S. imports of aircraft and parts from Canada enter duty-free under the U.S.-Canadian Defense Production Sharing Program. A large portion of our exports of aircraft and parts to Canada are on a duty-free basis because no comparable items are produced in Canada. Overall, we are concerned that duty reductions on U.S.-Canadian trade in aircraft and aircraft components would provide more benefit to Canadian exports than to U.S. exports.

The above comments should not be construed to suggest that no benefit would be derived by the United States from further duty reductions but simply that in the limited context of U.S.-Canadian action, such action would not appear, on balance to improve the U.S. position on trade account. Of course, if agreement could be obtained among the major trading nations to reduce or eliminate tariffs on aircraft and aircraft components, such multilateral action could be beneficial to the United States. However, we do not believe the time is ripe for such negotiations. Thus, in the absence of reciprocal duty reductions by countries other than Canada, the Treasury Department would be opposed to the further reduction by the United States of the tariffs on aircraft and parts, and to acceleration of those reductions negotiated in the Kennedy Round.

With regard to an agreement with Canada similar to the U.S.-Canadian Automotive Agreement, the Treasury Department believes that the efficacy and desirability of such sector arrangements need to be considered within the context of the trade policy study presently being conducted by the President's Special Representative For Trade Negotiations.

The Treasury Department certainly shares Congressman King's interest in increasing the export potential of U.S. producers and improving our trade balance. Thus, although we believe it would not be desirable at this time to take any of the actions proposed, we do believe that this matter should be examined in the context of the above-mentioned trade policy study.

Sincerely yours,

(Signed) Fred B. Smith
FRED B. SMITH.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., April 23, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives.

DEAR MR. MARTIN: This is in response to your request of February 15 for our views and comments on a proposal by the Honorable Cecil R. King to further reduce and/or eliminate tariffs in certain areas such as the aircraft and aircraft components sector between the United States and Canada, including the possibility of waiving the staging requirements on Kennedy Round Concessions.

This Department has no specific information on trade in the aircraft industry and thus does not have direct knowledge of the present state of United States-Canadian trade in aircraft and aircraft components or how this relates to trade with other aircraft producing nations or with American export trade generally. We therefore would prefer to withhold our comments until the facts on the industry's trade are developed by the agencies directly concerned. At that time the Department would be pleased to comment within the context of its continuing and active interest in the expansion of United States trade.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely yours,

JOHN A. SCHNITTKER,
Under Secretary.

OFFICE OF THE SPECIAL REPRESENTATIVE
FOR TRADE NEGOTIATIONS,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, April 22, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. MARTIN: Thank you very much for providing an opportunity to comment on Congressman King's letter to you of February 13.

Congressman King's objective to strengthen trade ties between Canada and the United States through the elimination or reduction of duties is fully consistent with our policy over the last 30 or more years. It is very interesting to note from the latest available data that a substantial amount of the total trade in both directions is already duty-free. More than two-thirds of Canada's exports to the United States come into our country free of duty, and something less than two-thirds of our exports receive similar treatment in Canada. The Kennedy Round results, when fully implemented in 1972, will increase both of these percentages. These results testify to the continuing policy of both governments in freeing trade between them. The study of future trade policy, which I have been commissioned to make by the President, will of course include the advantages of further trade liberalization between the two countries.

An analysis of our import trade data reveals no tariff classification of aircraft or parts where Canada has traditionally been the predominant supplier. Consequently, new duty reductions in this sector, as well as acceleration of concessions to which we are already committed, will largely benefit third country suppliers through operation of the most-favored-nation rule on which our trade policy is based. Since Canada is not an important supplier of aircraft and parts, she has chosen to waive duties on most of such imports from the United States. In strictly trade terms, the unrequited benefits which will accrue to other countries far outweigh any advantage that might be anticipated from the pro-

95-159 O—68—pt. 7——6

posal for either the United States or Canada. Nor would it be consistent with our trade policy to contemplate purely bilateral duty-free treatment or acceleration of concessions.

However, it may be possible that there are sectors of trade in aircraft and parts, narrower than our existing tariff classifications, where the interests of both countries would be served by the kind of actions here contemplated. Such analysis will, however, depend on statistics not now being regularly collected, and these would have to be specially requested. Comments from industry and labor may well show where an effort might most profitably first be concentrated. We would be very happy to assist in an investigation of this matter.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely yours,

William M. Roth,
Special Representative.

Department of State,
April 22, 1968.

Mr. John M. Martin, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, D.C.

Dear Mr. Martin: As requested in your letter to the Secretary of February 15, 1968, the Department of State has carefully examined the proposal to further reduce and/or eliminate tariffs between the United States and Canada on aircraft and aircraft components. As suggested in Congressman King's letter of February 13, 1968, a copy of which was enclosed with your letter, we have particularly considered the desirability of Congressional waiving of the staging requirements for United States Kennedy Round tariff concessions on aircraft and aircraft parts. We have also studied the possibility of future negotiations with Canada and other aircraft producing countries.

Prior to and during the Kennedy Round of trade negotiations, United States officials held discussions on several occasions with representatives of the United States Aircraft industry to discuss various possible approaches to trade liberalization affecting aircraft and components. We have also discussed this subject with the Government of Canada and the Governments of other principal aircraft producing countries.

United States negotiators in the Kennedy Round used the maximum authority available under the Trade Expansion Act of 1962 to reduce by 50 percent United States tariff rates on aircraft and parts. When United States Kennedy Round concessions are fully effective in 1972, our rates on aircraft and parts will be in the 4–5 percent range. Similarly, our major trading partners also made substantial reductions in their duties on these products.

Canada agreed to reduce its rates from 15 percent to 7½ percent. However, since 1952, aircraft and parts of types and sizes not made in Canada have been permitted duty-free entry into Canada. In practice, this has meant that all four-engined commercial aircraft and most smaller planes and components have been granted free entry. Thus, the Canadian barriers to imports of aircraft have not been very significant and are even less so after the Kennedy Round.

We understand that at present approximately 80 percent of total United States imports of aircraft and parts from Canada are procured by the Department of Defense under the United States-Canada Defense Production Sharing Program and enter the United States free of duty. Thus, further reduction or elimination of tariffs would affect only imports of Canadian commercial aircraft and parts. Regarding parts which are partly processed in the United States and further processed in Canada, the duty is charged only on the value of such processing done outside the United States. We believe this provision in item 806.30 of the Tariff Schedules of the United States further significantly eases the burden of United States importers of aircraft parts from Canada.

The United States Kennedy Round tariff concessions on aircraft and parts are being implemented in five annual stages with the final rate scheduled to be effective on January 1, 1972. The Department would have no objection if Congress were to waive the staging requirements set forth in the Trade Expansion Act of 1962 so as to permit putting the final rate for aircraft and parts into effect prior to 1972. However, we believe such a waiver of staging should be conditional on the agreement of our major trading partners to take parallel action. If such agreement were not possible, legislation eliminating staging on a most-favored-nation basis for those aircraft parts supplied primarily by Canada might be considered.

If the United States were to negotiate in the future with Canada to eliminate duties on aircraft and parts, the United States would be obliged under the General Agreement on Tariffs and Trade (GATT) to extend duty free treatment to all countries to whom the United States accords most-favored-nation status. Other major aircraft and parts suppliers to the United States, including the United Kingdom, European Common Market countries, and Japan, would gain significant benefits from such a duty elimination without giving anything in return. Even if the administration were authorized to negotiate with these countries as well as with Canada, we do not believe that at present the other major producers would be willing to eliminate their tariffs on aircraft and parts.

Another alternative approach might be for the United States and Canada to enter into a bilateral agreement to reduce or eliminate duties on aircraft and parts only on imports from each other. The United States obtained a waiver under GATT from the most-favored-nation rule to permit implementation of the United States-Canada Automotive Agreement which provided for the elimination of duties on certain automotive products only when imported from Canada. The GATT waiver was obtained because of the very special and unique nature of the North American automotive market and industry. We do not believe that similar conditions exist in the aircraft industries of the two countries. On the basis of our preliminary consideration, we do not think that it is likely that an arrangement patterned on the Automotive Agreement would be in the interest of the United States aircraft industry.

During the current study of United States trade policy, Ambassador William Roth, the President's Special Representative for Trade Negotiations, will be considering among other subjects future trade negotiating methods and possible industry or sector approaches to trade liberalization. We believe that free trade in specific sectors as well as other possible future broad approaches to United States-Canada trade are appropriate subjects for further analysis by Ambassador Roth.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this letter.

Sincerely yours,

WILLIAM B. MACOMBER, Jr.,
Assistant Secretary for Congressional Relations.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. MARTIN: This is in further reply to your letter of February 15, 1968, regarding the Honorable Cecil King's proposal with respect to United States-Canadian trade in aircraft and aircraft parts. The proposal envisages strengthening the economies of, and trade relations between, the two countries by negotiating further mutual reductions and/or elimination of tariffs. The proposal also envisages possible Congressional waiving of staging requirements on tariff reductions already made in the Kennedy Round.

The U.S. aerospace industry appears to be in a strong competitive condition with the value of shipments increasing at about 10 percent per year. Employment in the aircraft sector has increased from 319,200 in 1964 to 488,000 in 1967, and employment in aircraft engines and components has increased from 286,800 in 1964 to 356,000 in 1967. The average hourly earnings in January 1968 were $3.58 in the aircraft industry and $3.46 in the components industry. The United States has a significant export surplus in aircraft and parts; in 1967 exports were $1,828 million and imports were $283 million.

The U.S. and Canadian aircraft industries are complementary: Canada produces no large transport planes but allows their duty-free entry from the United States. The Canadian industry produces only light special type aircraft. There is a great deal of trade in military aircraft and components, free of duty in both directions.

The Department of Labor favors efforts to enlarge our trade relations with Canada. We would have no objection and see no serious problem from the point of view of labor in undertaking discussions within the U.S. looking toward negotiation of further mutual reductions and/or elimination of tariffs on aircraft and aircraft components predominently traded between the United States and Canada. We would expect that any such negotiations would be subject to the pre-negotiation provisions of the type contained in the Trade Expansion Act and to tariff adjustment and other adjustment assistance remedies to cover possible future adverse situations.

In regard to the elimination of the staging requirement of the duty reductions made in the Kennedy Round, most commercial aircraft components imported into the United States from Canada are presently dutiable at eight percent, which rate is scheduled to be reduced in annual stages to five percent by January 1, 1972, We would have no objection to Congressional action to eliminate the staging requirement on aircraft and aircraft components predominantly traded between the United States and Canada.

The Bureau of the Budget advises that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

(S) WILLARD WIRTZ,
Secretary of Labor.

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., May 31, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. MARTIN: This is in further reply to your letter of February 15 requesting the views of the Department of Commerce on a proposal of the Honorable Cecil R. King to further reduce or eliminate tariffs between the United States and Canada in certain areas, particularly the aircraft and aircraft components sector. Representative King's proposal outlined in his letter of February 13, also stressed the importance of waiving the staging requirements for the Kennedy Round concessions in this sector.

The promotion of free trade between the United States and Canada has been receiving increased attention by private groups in recent months. Some of these groups have recommended that the two nations move towards a broad free trade arrangement. As far as this Department is aware, these proposals have not received any official support by the Canadian Government although Canadian officials have indicated on occasion that global free trade in certain commodity sectors might be desirable. Similarly, these has been no recent detailed study of this subject within U.S. Government circles. However, the possibility of free trade between the two countries will be among the topics considered in the trade policy study being conducted by the President's Special Representative for Trade Negotiations.

Over the years the two nations have gradually moved towards free trade with each other. About 70 percent ($4.9 billion out of $7.1 billion) of United States imports from Canada entered the United States duty-free in 1967. In the other direction, over 50 percent of Canadian imports from the United States entered Canada free of duty in 1965 and, although data for 1966 and 1967 are not yet available, it is estimated that this ratio has risen to about 60 percent. The Automotive Products Trade Act of 1965 provided a significant step toward free trade between Canada and the U.S. in motor vehicles and original equipment parts and has contributed importantly to the rise in the volume of duty-free trade between the two countries in recent years. The volume of free trade between the two countries will rise further as the duty eliminations agreed to in the Kennedy Round become effective.

Establishing free trade in sectors or for specific commodities, as proposed by Representative King, is a goal that was pursued in the Kennedy Round for a number of the items. Generally, these items were those for which U.S. negotiators had authority to eliminate duties of 5 percent or less, and for which Canada had been carrying rates as high as 20 percent. Included among the categories on which both countries eliminated duties (or where one country matched the duty-free treatment granted by the other) were softwood lumber, coal, natural gas, certain fish, hay, straw, certain seeds and plants, fresh apples, maple syrup and sugar, cement, lime, certain salt, pig and sponge iron, and certain paper products.

From all reports received so far, the Department considers that the efforts in the Kennedy Round to eliminate duties with Canada were quite successful, given the limited authority of the Trade Expansion Act of 1962 to eliminate U.S. duties. With this experience, which indicates that successful bilateral negotiations are possible, the Department would welcome authority to negotiate further elimination of duties with Canada on a reciprocal basis.

Although a waiver of the GATT obligations to provide most-favored-nation treatment to other GATT member nations was obtained in the case of the U.S.-Canada Automotive Products Agreement, that Agreement dealt with exceptional circumstances and a unique rationship between the United States and Canadian automobile industries. As a practical matter, it does not appear feasible to obtain additional waivers even though negotiations with Canada would encompass only products traded primarily between the two countries. Considerable analysis would, of course, be required to ascertain the products which might be appropriate for a negotiation of this type.

As to aircraft and aircraft components, the area of specific interest to Representative King, there are considerations applicable to aircraft which are not applicable to components. Foreign competition for aircraft comes chiefly from Western Europe, and the Department does not think it would be desirable to eliminate the U.S. duty on aircraft manufactured in Western Europe unless we could obtain similar treatment for U.S. aircraft in the markets of our competitors.

The aircraft components sector is complex in that the United States imports aircraft components from a number of countries. Imports in this sector in 1967 totalled $155 million. As in the case of aircraft, the Department would find it difficult to support elimination of duties on all aircraft components unless we could obtain reciprocal treatment in the markets of countries supplying components to the U.S. market. However, it would appear possible to limit an agreement with Canada to components being traded between the two countries, for which there is no serious competition from Western Europe.

The United States imports more aircraft components from Canada than it exports to that country, but the bulk of these imports has been for the use of the United States Government and therefore have been duty-free. For this reason, free trade on such components from Canada would not be expected to have a serious impact on our domestic industry.

Most commercial aircraft components imported into the United States from Canada are dutiable at 8 percent, which will be reduced to 5 percent as a result of Kennedy Round concessions. Most United States exports to Canada enter that country duty-free under an official suspension of duty. If applied, this duty would be 13½ percent. This rate will be reduced to 7½ percent as Kennedy Round concessions are implemented. Canada can, of course, legally impose its duties at any time up to the level of its trade agreement obligations.

Regarding the elimination of the staging of duties on aircraft components, the present rate of 8 percent, which went into effect January 1, 1968, will be reduced to 7 percent on January 1, 1969, to 6.5 percent on January 1, 1970, to 5.5 percent on January 1, 1971, and to 5 percent on January 1, 1972. Given the present date and the time which would be necessary for legislation to be considered and approved in the Congress, it would appear that the most realistic effective date for any possible elimination of staging would be towards the beginning of 1969 or thereafter, when the staging will involve only a reduction of two percentage points.

The Department considers that where staging would have little or no adverse effect on the competitive position of domestic versus imported products, it serves no useful purpose. In fact staging under these circumstances may be counterproductive in that cost savings to U.S. purchasers through reduced tariff rates are delayed. The Department would therefore have no objection to considering the waiver of the staging requirements for aircraft components, provided the issue were subjected to public hearings so that interested parties would have an opportunity to express their views.

All of the Department's statements assume that any agreement would be negotiated in accord with these provisions of the Trade Expansion Act which provide for public announcement of negotiations, public hearings on items for negotiations, Tariff Commission advice and escape clause provisions.

In summary, the Department of Commerce strongly favors continuing efforts to promote United States-Canada trade and is of the opinion that the proposal of

Representative King, if limited to products traded primarily between the two countries, can serve to achieve that end. Any negotiations should be preceded by a careful review to determine the merits of eliminating duties on a case-by-case basis. The Department at this time is inclined to oppose elimination of duties on aircraft, but is willing to consider mutual elimination of duties by the two countries on specified components. We would not object to considering the elimination of staging requirements for certain specified aircraft components. Before reaching any firm conclusions on these issues, the Department would want to obtain the views of interested parties.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

JOSEPH W. BARTLETT,
General Counsel.

U.S. TARIFF COMMISSION,
Washington, April 15, 1968.

MEMORANDUM RELATING TO PROPOSED PREFERENTIAL TARIFF TREATMENT BY THE UNITED STATES AND CANADA FOR EACH OTHER'S AIRCRAFT AND AIRCRAFT PARTS

This memorandum is submitted in response to your request of February 15, 1968, regarding a proposal being considered by Representative Cecil R. King to strengthen trade ties between the United States and Canada by further reducing and/or eliminating tariffs on United States-Canadian trade in aircraft and aircraft parts. Representative King states that he has in mind not only prospective negotiations, but also possible Congressional waiving of staging requirements on concessions already made in the Kennedy Round.

The granting of preferential tariff treatment by the United States to Canadian aircraft and aircraft parts, whether accomplished by a bilateral agreement with Canada or whether in the form of the acceleration of the Kennedy Round reductions, would require the enactment of specific legislation. In addition, since the United States is a contracting party to the General Agreement on Tariffs and Trade (GATT) and since the GATT does not provide for such preferential treatment as an exception to the most-favored-nation commitment contained therein, the extension by the United States of such treatment to Canadian products would necessitate, as in the case of the United States-Canadian Automotive Products Agreement, a waiver of its GATT obligations, if such preferences were not to be considered in violation thereof.

TARIFF TREATMENT

While the granting of preferential treatment by the United States and Canada to each other's aircraft and aircraft parts would result in changes in the tariff treatment accorded to a part of the trade in such products between the two countries, it would not effect any changes in the treatment accorded to most of the present trade, since most of it has been free of duty. The bulk of United States imports of such products from Canada has been for the use of United States military departments and has, therefore, been exempted from duty under item 832.00 of the Tariff Schedules of the United Ttates (TSUS) ; and most Canadian imports of such products from the United States have been of a type not produced in Canada and have, therefore, been temporarily free of duty. This temporary exemption has been extended to July 1, 1969. However, a large rate reduction or duty elimination may stimulate the trade which is now dutiable.

Canadian aircraft imported into the United States for other than Governmental use are dutiable at 9 percent ad valorem under TSUS item 694.40. This rate reflects the first stage of a concession granted by the United States in the Kennedy Round GATT negotiations. Pursuant to the concession, the rate on aircraft will be gradually reduced to 5 percent ad valorem by January 1, 1972. Canadian aircraft parts imported into the United States for other than Governmental use are dutiable under various TSUS items at various rates of duty, the applicable rate depending on the part of part. Parts not covered by specific parts porvisions in the TSUS are dutiable under TSUS item 694.60 at 8 percent ad valorem. Like the rate for aircraft, this rate reflects a GATT concession and will be gradually reduced to 5 percent ad valorem by January 1, 1972. Aircraft parts covered by specific parts provisions include such porducts as automatic flight control instruments, which are dutiable under TSUS item 712.47 at 10.5 percent ad valorem

(January 1, 1972 rate—6 percent ad valorem), certain piston-type aircraft engines, which are dutiable under TSUS item 660.44 at 7.5 percent ad valorem (January 1, 1972 rate—4 percent ad valorem), and turbo-jet and gas turbine engines, which are dutiable under TSUS item 660.46 at 9 percent ad valorem (January 1, 1972 rate—5 percent ad valorem). There are, in addition, a number of other metal, glass, and textile products that constitute aircraft parts and which are dutiable under the specific TSUS provisions that cover such parts. Included among these provisions are those for bolts, rivets, window glass, floor coverings, and numerous other products that go into the manufacture of an airplane.

United States aircraft, aircarft engines, and aircraft parts other than parts specified in the Canadian tariff schedules, of a type or size made in Canada, were dutiable at 15 percent ad valorem prior to January 1, 1968, but as a result of concessions granted by Canada in the Kennedy Round the rate on such products will be reduced to 7.5 percent ad valorem by January 1, 1972. As indicated, United States aircraft and aircraft parts of a type or size not made in Canada are free of duty.

U.S. PRODUCTION, EXPORTS, AND IMPORTS

The United States is the world's largest producer, consumer, and exporter of aircraft and aircraft parts; it is also a major importer of these products although imports are small in relation to domestic production, consumption, and exports. Trade between the United States and Canada in aircraft and aircarft parts constitutes a rather substantial portion of the value of total United States imports and exports of such products.

Production

In 1963 (the last year for which official statistics on the size of the domestic industry are available) aircraft were produced in 100 establishments that employed 302,201 workers; aircraft instruments were produced in 80 establishments with 15,490 employees; aircraft propellers were produced in 14 establishments with 11,183 employees; aircraft engines and engine parts were produced in 232 establishments with 190,834 employees; and various other aircraft parts, as well as auxiliary equipment, were produced in 1,000 establishments with 175,167 employees. The latter two groups of establishments included establishments that were engaged in producing engines and parts for missiles and for space vehicles, but the Commission has been unable to ascertain how many of these establishments and how many of their employees were engaged in the production of such articles.

Establishments that produce the foregoing products are located in all regions of the United States, but production is concentarted in California, Washington, Texas, Kansas, Georgia, Ohio, Pennsylvania, New York, and Connecticut.

U.S. producers' shipments (including exports) of the foregoing products (other than propellers) increased annually during 1964–66. The value of such shipments, in millions of dollars, is shown in the following tabulation:

	1964	1965	1966
Aircraft	$4,662	$5,227	$6,886
Aircraft engines and engine parts	2,066	2,311	2,990
Aircraft instruments	370	398	533
Aircraft propellers	99	94	72
Miscellaneous aircraft parts and auxiliary equipment	2,429	2,657	3,564

The substantial gain in the value of U.S. producers' shipments of these products is attributable to increased requirements for military aircraft generated by the Vietnam war and the continuing growth in air transportation as a medium for moving both passengers and freight. It is likely that the recent trend in shipments will continue for the next several years in view of the substantial backlog of orders held by domestic producers coupled with the fact that these producers have a number of advanced aircraft under development that will soon be offered for sale. The decline noted above in the value of shipments of propellers is due to the fact that an increasing share of the domestically produced aircraft do not use propellers.

Exports

The United States is by far the world's largest exporter of aircraft and aircraft parts. Exports of these products increased in value from $1.4 billion in 1965 to $2.0 billion in 1967 (table 4); such exports have been a major contributor to the United States favorable balance of trade. Virtually all of the free world's commercial airlines operate some U.S.-built airplanes. The United States position as the leading aircraft exporter has been particularly pronounced since U.S. producers introduced technologically advanced, jet transport planes in the late 1950's.

United States exports of non-military aircraft to Canada increased in value from $20 million in 1965 to about $111 million in 1967. During the latter year exports to Canada represented about 14 percent of the value of total United States exports of non-military aircraft and military and non-military aircraft parts. Over 60 percent of the value of exports of non-military aircraft to Canada during 1965–67 consisted of passenger transports having an empty airframe weight of over 33,000 pounds. Data on United States exports of military aircraft are not reported by country of destination.

Imports

The value of annual U.S. imports of airplanes during the 1964–67 period fluctuated widely between a high of $162.5 million in 1966 and a low of $20.3 million in 1964 (table 1). Airplanes imported from Canada have consisted largely of military aircraft which enter the United States free of duty. The principal Canadian manufacturers of such airplanes are De Haviland (a subsidiary of a British firm) and Canadair (a subsidiary of the U.S. firm, General Dynamics). Imports from the United Kingdom in recent years have consisted largely of "BAC One-eleven" airplanes which are produced by the British Aircraft Corporation. A total of 54 of these airplanes have been ordered by Braniff, Mohawk, and American Airlines. Imports from France during 1966 and 1967 were principally Nord-Aviation's "Nord–262" airplanes purchased by Lake Central Airlines. Imports from Japan of Mitsubishi Heavy Industries' "YS–11" airplanes for Piedmont Airlines commenced in 1967. The success of foreign manufacturers in selling their airplanes in the United States is believed to be due to the fact that they are offering equipment that fulfills a specific need that is not available from U.S. producers. U.S. producers have generally concentrated on building the large, long- and medium-range, jet transports; thus foreign producers have had considerable success in supplying U.S. requirements for small, short-range transports.

It is known that U.S. imports of airplanes will be at a very high level in the early 1970's when U.S. airlines begin receiving delivery on open orders for the "Concorde" supersonic transport. This airplane was jointly developed by France and the United Kingdom. The airframe for the "Concorde" will be built in France and the engines in the United Kingdom.

The value of U.S. imports of aircraft engines increased annually from $7.3 million in 1964 to $30.8 million in 1967 (table 2). The bulk of the engine imports have been supplied by the British firm, Rolls-Royce Ltd. This firm was recently selected to furnish the engines that will be used in the Lockheed model 1101–Airbus. Advance orders for this airplane indicate Rolls-Royce will receive orders valued at approximately $500 million for use with the Airbus.

A significant but unknown part of the imports of engines from Canada consist of engines produced by a Canadian subsidiary of the U.S. firm, United Aircraft Corporation.

Data on U.S. imports of aircraft engine parts are not separately reported in the official statistics.

U.S. imports of aircraft parts (which, if dutiable, would enter the United States under TSUS item 694.60) increased in value from $62.4 million in 1964 to $188.0 million in 1967 (table 3). Canada supplied 82 percent of the value of U.S. imports of parts in 1967. The great bulk of these parts was entered duty free for U.S. Government use. Dutiable imports from Canada in 1967 consisted largely of wing assemblies and other major airframe components for the DC–9 airplane which were imported by McDonnell-Douglas from its Canadian subsidiary.

Imports of aircraft parts as shown in table 3 are understated because certain parts that are entered under TSUS items other than item 694.60 are not included in the statistics presented in the table. Parts for which import data are not presented include automatic pilots, instruments, rivets, tires, innertubes, etc. There is no basis for developing a meaningful estimate of the aggregate value of imports of these articles.

Airplanes: U.S. imports for consumption, by type of entry and by principal sources, 1964-67

[In thousands of dollars]

Country and type of entry 1/	1964	1965	1966	1967
Canada:				
Dutiable		8,519	5,831	
Non-dutiable:	5			9,813
U.S. components in articles assembled abroad		1,825	55	
For U.S. Government use	17,039	8,520	11,150	1,569
Under bond for export	-	-	593	600
Total	17,044	18,864	17,629	11,982
United Kingdom:				
Dutiable		42,561	98,024	
Non-dutiable:	2/ 1,690			14,506
U.S. components in articles assembled abroad		2,871	8,026	
Total	1,690	45,432	106,050	14,506
France:				
Dutiable		5,661	25,159	
Non-dutiable:	8			27,659
U.S. components in articles assembled abroad		2,859	10,215	
For U.S. Government use	-	-	777	-
Under bond for export	-	-	-	13
Total	8	8,520	36,151	27,672
Japan:				
Dutiable		-	2,129	
Non-dutiable:	1,194			6,167
U.S. components in articles assembled abroad		-	225	
Total	1,194	-	2,354	6,167
All other:				
Dutiable		408	276	
Non-dutiable:	327			521
U.S. components in articles assembled abroad		77	21	
Under bond for export	-	-	-	9
Total	327	485	297	530
Total, all countries:				
Dutiable		57,149	131,419	
Non-dutiable:	2/ 3,224			58,666
U.S. components in articles assembled abroad		7,632	18,542	
For U.S. Government use	17,039	8,520	11,927	1,569
Under bond for export	-	-	593	622
Total	20,263	73,301	162,481	60,857

1/ Dutiable imports are those entered under item 694.40; non-dutiable imports consist of U.S. components in articles assembled abroad (item 807.00); articles for U.S. Government use (item 832.00); and articles imported for processing under bond for export (item 864.05).
2/ Includes non-dutiable imports valued at $15 thousand entered under special legislation.

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. Tariff Commission
March 1968

Aircraft engines: U.S. imports for consumption, by type of entry and by principal sources, 1964-67

(In thousands of dollars)

Country and type of entry 1/	1964	1965	1966	1967
Canada:				
Dutiable		3,054	7,451	
Non-dutiable:	1,922			7,488
U.S. components in articles assembled abroad		2,184	3,172	
For U.S. Government use	1,241	2,608	1,384	1,565
Under bond for export	-	2/	13	40
Total	3,163	7,846	12,020	9,093
United Kingdom:				
Dutiable		11,914	20,136	
Non-dutiable:	3,796			20,627
U.S. components in articles assembled abroad		15	11	
For U.S. Government use	-	83	-	386
Under bond for export	-	-	-	7
Total	3,796	12,012	20,147	21,020
France:				
Dutiable		279	578	
Non-dutiable:	111			332
U.S. components in articles assembled abroad		-	-	
Total	111	279	578	332
Japan:				
Dutiable		2/	7	
Non-dutiable:	-			261
U.S. components in articles assembled abroad		-	-	
Total	-	2/	7	261
All other:				
Dutiable		12	22	
Non-dutiable:	-			44
U.S. components in articles assembled abroad		-	-	
Under bond for export	222	-	-	-
Total	222	12	22	44
Total, all countries:				
Dutiable		15,259	28,194	
Non-dutiable:	5,829			28,752
U.S. components in articles assembled abroad		2,199	3,183	
For U.S. Government use	1,241	2,691	1,384	1,951
Under bond for export	222	2/	13	47
Total	7,292	20,149	32,774	30,750

1/ Dutiable imports are those aircraft engines which are entered under TSUS items 660.44 and 660.46; non-dutiable imports consist of U.S. components in articles assembled abroad (item 807.00); articles for U.S. Government use (item 832.00); and articles imported for processing under bond for export (item 864.05).
2/ Less than $500.

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. Tariff Commission
March 1968

Aircraft parts: 1/ U.S. imports for consumption, by type of entry and by principal sources, 1964-67

(In thousands of dollars)

Country and type of entry 2/	1964	1965	1966	1967
Canada:				
Dutiable		3,475	8,574	
Non-dutiable:	4,199			19,352
U.S. components in articles assembled abroad		48	756	
For U.S. Government use	44,712	44,478	80,701	132,673
Under bond for export	657	1,308	1,124	3,134
Total	49,568	49,309	91,155	155,159
United Kingdom:				
Dutiable		10,719	12,320	
Non-dutiable:	4,543			11,181
U.S. components in articles assembled abroad		-	-	
For U.S. Government use	6,186	3,029	745	12,309
Under bond for export	19	63	160	109
Total	10,748	13,811	13,225	23,599
France:				
Dutiable		1,013	1,927	
Non-dutiable:	564			2,606
U.S. components in articles assembled abroad		-	-	
For U.S. Government use	68	277	20	89
Under bond for export	1	6	2	12
Total	633	1,296	1,949	2,707
Japan:				
Dutiable		34	527	
Non-dutiable:	46			431
U.S. components in articles assembled abroad		-	-	
For U.S. Government use	49	-	10	12
Under bond for export	-	11	-	-
Total	95	45	537	443
All other:				
Dutiable		375	923	
Non-dutiable:	158			5,012
U.S. components in articles assembled abroad		5	-	
For U.S. Government use	1,209	349	7	481
Under bond for export	16	69	32	624
Total	1,383	798	962	6,117
Total, all countries:				
Dutiable		15,616	24,271	
Non-dutiable:	9,511			38,582
U.S. components in articles assembled abroad		53	756	
For U.S. Government use	52,224	48,133	81,483	145,563
Under bond for export	692	1,457	1,318	3,880
Total	62,427	65,259	107,828	188,025

1/ Data included in this table cover only those aircraft parts which, if dutiable, would be entered under TSUS item 694.60.

2/ Dutiable imports are those entered under item 694.60; non-dutiable imports consist of U.S. components in articles assembled abroad (item 807.00); articles for U.S. Government use (item 832.00); and articles imported for processing under bond for export (item 864.05). This latter heading also covers negligible imports of other non-dutiable articles.

Source: Compiled from official statistics of the U.S. Department of Commerce.

U.S. Tariff Commission
March 1968

AIRCRAFT, AIRCRAFT ENGINES, AIRCRAFT INSTRUMENTS, AND AIRCRAFT PARTS NOT ELSEWHERE CLASSIFIED: U.S. EXPORTS OF DOMESTIC MERCHANDISE BY SELECTED MARKETS, 1965–67

[In thousands of dollars]

Market	1965	1966	1967
	NONMILITARY AIRCRAFT		
Canada	19,690	58,337	110,931
United Kingdom	18,377	5,003	22,178
France	27,927	9,333	34,404
Japan	62,137	76,246	27,648
All other	349,104	403,464	594,031
Total	477,235	552,383	789,192
	MILITARY AIRCRAFT		
All countries [1]	303,528	220,938	322,721
	AIRCRAFT ENGINES (INCLUDING PARTS)		
Canada	34,108	49,655	54,644
United Kingdom	8,143	13,892	19,824
France	22,548	31,644	37,216
Japan	25,105	25,370	34,116
All other	166,180	171,742	189,374
Total	256,084	292,303	335,174
	AIRCRAFT INSTRUMENTS		
Canada	6,881	6,721	7,945
United Kingdom	8,359	9,836	15,102
France	10,728	9,530	9,366
Japan	7,588	15,319	11,003
All other	27,825	39,036	43,275
Total	61,381	80,442	86,691
	AIRCRAFT PARTS (NOT ELSEWHERE CLASSIFIED)		
Canada	36,920	42,510	58,563
United Kingdom	10,883	15,261	26,409
France	31,700	28,207	25,992
Japan	35,462	33,595	42,927
All other	195,264	208,311	270,775
Total	310,229	327,884	424,666
Grand total	1,408,457	1,473,950	1,958,444

[1] Data are not reported by country of destination for security reasons.

Source: 1965 and 1966 data compiled from Commodity Trade Statistics of the United Nations; 1967 data compiled from official statistics of the U.S. Department of Commerce.

McDONNELL DOUGLAS CORP.,
July 16, 1968.

HON. WILBUR D. MILLS, M.C.,
Chairman, Committee on Ways and Means,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: At the request of Mr. Douglas, I am setting forth below certain additional information concerning the commercial exports of Douglas Aircraft Company. Over the last five years our exports have grown steadily; from 87.5 million in 1964 to 101.9 million in 1965; to 193.9 million in 1966; and 348.2 million in 1967.

In 1968 we expect to export close to $700 million in commercial aircraft, almost twice the exports of 1967. In our commercial backlog we have about $1.8 billion in international sales at this time. Furthermore, our company contributes to U.S. exports through its foreign military sales.

Mr. Douglas' interest in furthering U. S. exports has led him to participate actively in the National Export Council of the Secretary of Commerce and to act as Chairman of the Committee on Export Financing. It is this involvement which has driven home to him the importance of removing any barriers which might handicap our posture in international markets.

Accordingly, he heartily supports the administration's proposed Trade Expansion Act of 1968 and specifically H.R. 17768 introduced by Congressman King of California.

Sincerely,

JOHN R. ALLEN,
Vice President, Eastern Region.

Mr. BURKE. Are there any questions?

Thank you very much, Mr. Douglas. We appreciate your cooperation.

Mr. DOUGLAS. You are very welcome.

Mr. BURKE. Our next witness is Adm. William J. Marshall. Is Mr. Marshall in the room?

Without objection, we will leave the record open at this time for Mr. Marshall to submit a statement.

(Mr. Marshall's statement referred to follows:)

STATEMENT OF VICE ADM. WM. J. MARSHALL, U.S.N. (RETIRED), PRESIDENT, THE BOURBON INSTITUTE

T.E.A. AND BOURBON: RECIPE FOR RECIPROCITY

(Comments on the Proposed Trade Expansion Act of 1968 and the Extraordinary Growth of Foreign Distilled Spirits Sales in the United States)

It would be difficult to imagine a market anywhere in the world as potentially lucrative as the United States must appear to foreign businessmen. We can understand and appreciate the attitudes and objectives of foreign businessmen and their governments in bending all efforts to expand their U.S. sales. We can understand and appreciate the importance to them of their economic success here. We can understand and appreciate the need for our own country to maintain liberal trade policies in order that such policies may be reciprocated by foreign nations. But we are forced to question whether our nation is required to be so self-sacrificing as to jeopardize the welfare of its workers, its investors or its industrial capacity.

CONSUMERS DO NOT BENEFIT

From 1955 through 1967, sales of U.S. whiskey here at home gained 14.9%. During the same period, imported whiskey sales here gained 194%. During that period, even before the first tariff concessions were granted at the conclusion of the Kennedy Round, the import duty on Scotch whiskey was reduced from $1.50 per proof gallon to $1.02—a reduction of 32%. At the same time, the sale of Scotch whiskey here rose 222%.[1] Now it is repeatedly said that tariff reductions result in lower prices to the consumer. Indeed, this point has again been made in some of the official material publicized at these hearings. One may wonder, therefore, if the tariff reductions on Scotch whiskey resulted in lower consumer prices. The answer, unfortunately, is absolutely "No." The fact is that each time Scotch duties were reduced, and this occurred six times between 1955 and 1967, the average price of the leading Scotches was increased. In no case did the U.S. consumer derive any benefit from duty decreases. On January 1, 1968, the duty was again decreased under the Kennedy Round Agreement, and shortly thereafter Scotch f.o.b. prices were increased.

THE NATURE OF RECIPROCITY

Perhaps the failure to come to grips with the true problems of reciprocity has been due to the fact that the term is so difficult to define:

[1] No wonder, with the tariff amounting to less than 20 cents on a bottle which retailed at over 6 dollars; and this tariff now to be reduced to 10 cents under the Kennedy Round agreement.

Has reciprocity been achieved when nations reduce tariffs by equal percentages? But what if one nation's tariff was inordinately high at the outset, while another's was not?

Can reciprocity be defined as reduction of tariff levels to the point at which they represent the same percentage of the manufactured cost for each nation? But what if one nation has much lower manufacturing costs because its workers do not receive living wage rates?

Is the cause of reciprocity served when a nation's consumer purchasing power is so depressed that even low tariff levels are sufficient to price imported products out of reach of average consumers?

What happens to reciprocity in the case of nations that merely give lip service to the concept, such as claiming to have eliminated administrative barriers, but in fact continuing to maintain such trade obstacles and even creating new ones?

Have we achieved reciprocity when a national government claims to have no control over local political units which set up their own administrative, tax, legal, and other trade barriers?

Those who work in the area of trade negotiations can cite concrete examples to illustrate all of these situations. It is evident that true reciprocity is mighty difficult to come by.

The General Agreement on Tariffs and Trade took one important but elusive aspect of trade discrimination into account when it allowed for countervailing duties to be imposed on the goods of countries which subsidize their exports. But the methods of subsidizing exports are so numerous and so complicated that there is always question as to whether such subsidies are in fact being employed. It would be wise to recognize this difficulty, as well as all of those previously listed, in drafting any new legislation governing international trade.

IMPACT OF FOREIGN DISTILLED SPIRITS SALES IN UNITED STATES

The United States has been the world's largest importer of distilled spirits. This status continues to grow by leaps and bounds. The amount of liquor coming into this country grew from seven million gallons in 1935 to 17 million in 1945, to 24 million in 1955, to 58 million in 1965, and now to 70 million in 1967.

The distilling industry directly employs some 34,000 men and women in the production, storage, bottling, and sale of its products. But its impact on other industries and businesses is far greater than would be indicated by the number of its direct employees. For example, the industry purchases more than $100 million worth of barrels from the cooperage industry. It purchases close to two-billion bottles of some ten different sizes from the glass industry. It buys millions of dollars worth of grain from the nation's farmers, and it buys over one-hundred million cardboard cartons in which to ship its merchandise. It spends well over $150,000,000 in advertising and promotion expenditures. Thus, the industry has a direct impact on employment in many fields which provide it with materials and services.

There are nearly three-thousand six-hundred wholesale establishments whose chief business is the distribution of distilled spirits and wine, and there are over 225,000 retail liquor stores, taverns, restaurants, and clubs whose primary source of income is the retail sale of distilled spirits. These businesses at wholesale and retail employ over a million persons.

MARKET SHARE HELD BY U.S LIQUORS DECLINED SHARPLY

Obviously, this distilled spirits industry is quite substantial, but it would have been even more substantial had United States-produced liquors retained the share of the market they enjoyed even as recently as 1955. In that year, spirits distilled in the United States accounted for 88.5% of the United States market for all distilled spirits, both imported and domestic. In 1967, the share of the total market held by United States-produced spirits had fallen to 79.3%. In 1955, United States-produced *whiskies* accounted for 86.7% of all whiskey sales in the United States market, both imported and domestic. In 1967, the share of the whiskey total held by United States-produced whiskies had fallen to 71.8%. If United States distilled spirits had maintained in 1967 their 1955 "share of market," benefits to the federal and state governments in the form of corporate and personal income taxes derived from the distilled spirits industry and supplier industries would have been very substantial. It is estimated that direct employment by the United States distilled spirits industry might have increased by approximately fifty percent. Employment by the glass industry, employment by the makers of bottle caps, labels and cartons would also have been higher.

UNFAVORABLE TRADE BALANCE

Nothing dramatizes the problem faced by both the distilled spirits industry and, by extension, the United States economy quite as forcefully as the import-export balance figures in the alcoholic beverage trade. That deficit balance is now *in excess of one-half billion dollars.* The precise deficit figure published by the United States Department of Commerce for 1967 was $509,730,004. The portion of this huge deficit resulting from the imbalance of distilled spirits sales alone (excluding all other alcoholic beverages such as wine and beer) was $402,410,873. The table which follows brings these unfortunate figures and the trend they represent into sharp focus.

UNFAVORABLE BALANCE OF ALCOHOLIC BEVERAGE TRADE—GOLD RESERVES VS. WINES AND SPIRITS IMPORT/EXPORT BALANCE

[Dollar amounts in thousands]

	U.S. gold reserves [1]	Dollar value of imports	Dollar value of exports	Balance of alcoholic beverage trade
1938	14,512,000	$57,708	$192	−$57,516
1939	17,518,000	59,076	691	−58,385
1940	21,995,000	53,809	476	−53,333
1941–44 (World War II)				
1945	20,083,000	67,923	4,814	−63,109
1946	20,529,000	95,150	8,093	−87,057
1947	22,712,000	67,305	8,259	−59,046
1948	24,244,000	86,434	2,907	−83,527
1949	24,427,000	89,594	6,747	−82,847
1950	22,897,000	116,485	5,699	−110,786
1951	22,483,000	125,405	5,577	−119,828
1952	23,276,000	127,552	8,690	−118,862
1953	22,028,000	152,422	9,133	−143,289
1954	21,711,000	155,995	9,469	−146,526
1955	21,689,000	171,462	4,643	−166,819
1956	21,942,000	197,804	4,408	−193,396
1957	22,769,000	213,172	6,094	−207,078
1958	20,563,000	227,398	5,409	−221,989
1959	19,482,000	256,734	4,714	−252,020
1960	17,954,000	280,586	4,651	−275,935
1961	16,929,000	293,000	5,902	−288,098
1962	15,978,000	318,000	5,716	−312,284
1963	15,562,000	337,000	[1] 8,000	−329,000
1964	15,388,000	382,000	8,776	−373,224
1965	13,799,000	422,000	9,375	−412,624
1966	13,159,000	467,000	9,488	−457,512
1967	11,982,000	520,907	11,177	−509,730

[1] Estimated (close to actual).

Source: Federal Reserve Bank and Department of Commerce.

IMPORTS VERSUS EXPORTS: EXPORT PROBLEMS

United States spirits exports have certainly increased in recent years, and the nature of the increase has been such as to encourage the belief that they may one day offer a worthwhile potential for sales and profits which will have real meaning to our country's balance of payments problem, United States workers, distilling industry shareholders, and our state and federal treasuries. But despite the fact that United States distillers have welcomed competitive foreign goods to American shores, they have failed to obtain equal opportunity in foreign markets. Instead, they are repeatedly assured that no foreign discriminations exist, when in fact they do exist, or that existing discriminations will be eliminated, when in fact no efforts are made to elminate them.

Consider this: though the United States officially recognizes Scotch whiskey, Canadian whiskey, Cognac brandy, and Irish whiskey as distinctive products of their respective nations and bans the importation into this country of any product claiming to be similar but made elsewhere than in those nations, none of those countries extend equivalent recognition to Bourbon whiskey.

This is true despite the fact that Bourbon has always been acknowledged to be a unique and distinctive product of the United States and was recognized as such by the United States Congress in a joint resolution adopted in May, 1964. This failure to extend reciprocal recognition of the Bourbon appellation also flies in the face of the resolution adopted by the Federation Internationale des Industries et du Commerce en Gros des Vins, Spiriteux, Etueux-de-Vie et Liqueurs, as early as 1960, proclaiming Bourbon a distinctive product of the United States.

It is particularly noteworthy that some of the countries which have failed to extend reciprocal recognition to Bourbon must recognize the tenuousness of their position, because they have passed along informal assurances that such recognition would be forthcoming. But years have worn on, and nothing has happened. The time for words is past. If these nations would truly convince us of their good faith, they should act now.

In one case—that of France[2]—we currently import 45 million dollars worth of alcoholic beverages a year, of which more than twelve million dollars worth is Cognac. We prohibit American from making Cognac here, so there is no direct domestic competition. Yet France not only refuses to recognize the distinctiveness of Bourbon whiskey, but it actively discriminates against the sale of Bourbon in France by prohibiting its advertising in any form. French law, you see, forbids the advertising of spirits distilled from grain, such as Bourbon, while permitting full advertising privileges to spirits distlled from fruit, such as Cognac. This could be dismissed as just one more example of French truculence. But how long will the United States have to put up with such truculence? How long can it *afford* to?

MARKET BLOCS

As far back as 1963, in a brief entitled Bourbon, Barriers and Blocs, which was submitted to the United States Department of Commerce, The Bourbon Institute pointed out that market blocs such as the European Economic Community (better known as the Common Market) and the European Free Trade Association (better known as the Outer Seven) were in the process of creating a vigorous new discrimination against the United States distilling industry. It was pointed out at that time that as tariffs were progressively reduced as between the member nations of those market blocs, American products and Bourbon in particular would suffer by the continued existence of high rates of duty on these products. Thus, it was predicted and it has come to pass that the Common Market has been posted as a private preserve for Cognac, and the Outer Seven has taken on a similar status with respect to Scotch.

This situation was slightly modified by the recently concluded Kennedy Round of tariff negotiations, but even there it turned out that Bourbon gave more than it got. The result was the granting of the fullest possible reduction allowed under the law in tariffs on distilled spirits imported into the United States, even in the face of the phenomenal growth in sales by these imports. Thus, United States import duties on distilled spirits were cut fully by 50%, although the Common Market reduced its rate on Bourbon only 30%. Bearing in mind that the Common Market rate was well over three times higher than the United States rate to begin with, and consumer purchasing power is not as great in those nations as it is here, it is clear that the impact of the Common Market tariff is proportionally far greater.

The subject of the United States wine gallon/proof gallon method of levying import duties and excise taxes on all distilled spirits would not require comment in this testimony except that the matter is constantly revived by foreign shippers. There is pending today another case in Customs Court concerning this matter and the United States Government has once more firmly stated its position that the United States method of imposing duty and internal revenue tax is nondiscriminatory.

The Bourbon Institute has discussed this subject at length in testimony submitted to the Trade Information Committee in 1963 and nothing has happened since that date that would alter that testimony. Suffice to restate that the wine gallon/proof gallon method has been determined by one court after another to

[2] Within the past few days, on June 26, 1968, the French Government again moved to create new trade barriers by imposing import ceilings and subsidizing exports—both actions aimed in large part at the United States.

be a fair and equitable means of taxing both imported and domestic distilled spirits, and that the method is, in fact, applied equally and impartially to both imported and domestic distilled spirits, and that this method fully complies with all treaty obligations of the United States.

CONCLUSION

From all of the foregoing, it is difficult to escape the conclusion that the time has arrived when serious consideration must be given to measures which will assure the United States distilling industry of equal competitive opportunities within our own borders. The distilled spirits industry has not requested legislation tailored to its own specific needs. It has not requested the adoption of protectionist devices. But it calls most emphatically for prompt movement toward equal opportunity for all United States products, both in the United States and abroad.

Consider, if you would, a subject which has been much on your mind since January. I refer to the proposals for a travel tax and restrictions on travel outside the Western Hemisphere. I will not restate the issue which is so thoroughly familiar to you, but I would like to reiterate a salient observation made by travel industry spokesmen at the time the proposals were first advanced. They noted that restrictions on travel would impose hardships on average Americans. They pointed out that elimination of unfavorable trade balances in other industries would not cause such hardship. In this they singled out the distilled spirits industry for special mention. Well they might, as you have seen from this testimony. Elimination of the unfavorable trade balances in alcoholic beverages and other industries could eliminate our nation's entire payments deficit.

The United States is the world's freest market, as the record clearly shows. Americans tire of foreign charges to the contrary when it is well-known that this nation maintains virtually no trade barriers, but foreign nations certainly do. How else could the world's greatest steel industry, the world's greatest textile industry, and the world's greatest distilled spirits industry have suffered such severe losses in their respective shares of the U.S. market?

How many other industries find themselves in similar straits?

How much more can we give away at international bargaining tables?

How much further must our economy be set back?

How much injury must be done to U.S. wage levels before we can be competitive?

Hasn't the time arrived for Congress to take the situation in hand?

(The following statements were received for the record by the committee:)

STATEMENT OF DON W. MCCOLLY, PRESIDENT, AND JEFFERSON E. PEYSER, GENERAL COUNSEL, WINE INSTITUTE

This statement of Wine Institute, 717 Market Street, San Francisco, Calif., is presented pursuant to a press release issued May 9, 1968, by Wilbur D. Mills, Chairman, Committee on Ways and Means, for incorporation into the record of public hearings to be held beginning on June 4, 1968, on the general subject of the balance of trade between the United States and foreign nations. The positions and comments of Wine Institute, as expressed herein, shall be addressed to the following proposals, as identified in the above-mentioned "Notice": proposals relative to imposition of quotas, either on an across-the-board basis or on named items or commodities; proposals for increasing our exports; results of "Kennedy Round" agreement; and measures directed at maintaining our favorable balance of trade and other matters related to the balance of trade in the context of our balance of payments problems.

Wine Institute is a trade association of the California wine and brandy producers. Its membership consists of the producers of wine and brandy in California, which represent approximately 80% of all those engaged in the production of wine in the State and approximately 90% of the total volume of wine produced in the State. The membership also represents approximately all those engaged in the production of fruit brandy in the State.

The products of the alcoholic beverage industry, of which the California wine and brandy industry is a part, are subject to governmental controls not imposed on the products of any other commodity. A Federal law controls production and labeling. 50 different sets of State laws, plus the District of Columbia, control the distribution of the industry's products in the various states. The industry is subject to many and varied domestic barriers to trade resulting from decisions of the United States Supreme Court which deny to the alcoholic beverage industry Federal constitutional guarantees enjoyed by other domestic industries. Further, the California wine and brandy industry and other segments in the alcoholic beverage industry have been unable to fully develop the domestic market for their products because of the sociological views and beliefs of a minority in our society which prompts this group to propose at the Federal, state and local levels measures which would prohibit or seriously curtain sale of our products.

I. PROPOSALS RELATIVE TO IMPOSITION OF QUOTAS, EITHER ON AN ACROSS-THE-BOARD BASIS OR ON NAMED ITEMS OR COMMODITIES

The California wine and brandy industry competes in the American market with foreign wines and brandies from all over the world, and particularly with those of the countries making up the European Economic Community, and Spain and Portugal. Foreign wine and brandy move freely in the United States market, subject only to the payment of United States excise taxes and import duties which can best be described as very low.

The California wine and brandy industry is a domestic industry which receives no governmental aid or subsidy, operating in a country which imposes no barriers other than Federal and state excise taxes and low tariff duties, which is required to compete in the market with its principal foreign competitors who are aided by programs of governmental support, which include the following: subsidized advertising and promotion programs; guaranteed prices to producers; storage of surpluses paid for by the Government and which annually exceed the entire consumption of wine and brandy by the United States market; stabilization of domestic markets by the control of the movement of wine to the market; actual purchases by government of surplus wine and brandy; and rigid governmental import controls of foreign wine and brandy into the domestic markets.

The California wine and brandy industry does not and has never advocated a "protectionist attitude". On the contrary, we have for many years advocated a free and equitable world trade policy. However, reasonable price stability in the domestic markets is essential in the maintenance of a healthy grape and wine industry. This stability is being threatened by the current importation of low quality, low priced wines principally from Western Europe and the potential importation of low priced wines from other areas. The California industry is willing and able to meet the open and free competition of good to excellent quality foreign wines, but is being hurt by the flow into the American market of the low quality wines. These latter wines, representing approximately 20% of each country's imports by volume to the United States, are a definite and potential threat to the stability of the American market for both foreign and American producers of fine quality wines. This potential danger is apparent when it is recognized that all major wine producing areas of the world are suffering from surplus wine production, viz., Western Europe, Chile, Argentina, Australia, South Africa, and Algeria. Improved living standards in many of these areas, particularly Western Europe, result in a steady and sufficient demand for the fine quality traditional wines. The wines in surplus in foreign countries are looking to the United States, the fastest growing consumer country with high economic standards, to absorb a portion of these surpluses. The California Industry believes that national policy should dictate some type of control over this bottom 20% of each country's exports to the United States to *prevent* damage to the domestic industry. Existing authority does not permit the solution of this problem.

II. PROPOSALS FOR INCREASING OUR EXPORTS

Foreign wine and brandy, as previously stated, move freely in the United States market, subject only to the payment of very low United States excise taxes and import duties, with the result that the domestic wine industry is slowly losing its historical share of the American market. (See IV of this Statement.) This easy accessibility enjoyed by foreign wines and brandy to the American market is in direct contrast to the export position of the California wine and brandy industry, which is merely in the initial stage of developing a world-wide market for its products.

The industry, with few exceptions, consists of family-owned enterprises or farmer cooperatives and the development of a distribution system in foreign lands requires many years. Approximately 24 California brands now export wine or brandy in amounts which by any standard are minimal.

Only two or three of the larger entities have established export departments and are making a serious, well-financed effort to place their products in foreign markets. Placements in these foreign markets are being severely hindered by high tariffs or numerous non-tariff barriers, such as licensing controls, monetary controls, quota systems which do not provide automatically a quota for American wines, special labeling requirements, special levies, special taxes, and other restrictions.

A serious non-tariff barrier exists in the form of bilateral or multi-lateral agreements between a small group of countries, including the principal wine producing countries of Western Europe. The agreements provide for the international registration of wine appellations by place of origin in producing counties and that wine entering commerce in signatory countries will be labeled in accordance with the international registered appellations of origin. In granting registry of appellation, the wine is identified with respect to geography of origin and certain qualities or characteristics. The net result of the agreement is to provide for exclusive labels to signatory countries in the marketing of designated wines.

Under these agreements the name "Port" is reserved to wines produced in Portugal; the "Chianti" for wines produced in the province of Toscana, Italy; the names "Sauterne" and "Champagne" to wines produced in the Bordeaux and Champagne districts of France, respectively; and the name "Sherry" to wines produced in Spain.

The California wine industry continues to maintain that the laws of the United States relating to the labeling of American-produced wines provide ample protection to the foreign consuming public and to the foreign producer. A label bearing the designation "California", "New York", or "American" is easily understood and cannot possibly be construed as being the product of a foreign producer.

Two major wine producing countries prohibit the importations of wine from the United States: Chile, by direct prohibition, and Argentina, by an import duty ad valorem surcharge of 277% in addition to the regular import duty of 50% ad volorem on the C.I.F. cost in Buenos Aires. The high import duty rate plus the surcharge effectively preclude the importation of California wine and brandy into Argentina. Other countries that are not major wine producing countries also bar United States wine and brandy from their markets. Mexico prohibits the importation of bulk wine from the United States and imposes prohibitive import duties on wine and brandy in containers of one gal. or less.

Non-tariff barriers of this kind completely deny California wine and brandy access to the markets of countries employing them. There are, to further emphasize, no United States non-tariff import restrictions on the importation of wine, brandy, or related products into the United States, except for certain standards of purity as required by the Federal Food, Drug and Cosmetic Act and minimal labeling requirements on consumer containers.

III. RESULTS OF "KENNEDY ROUND" AGREEMENT

Since the adoption of the Trade Expansion Act of 1962, the two major developments in international trade affecting the United States were the Kennedy Round of Trade Negotiations under GATT, concluded at Geneva last year, and the further development of the European Economic Community.

In the first instance, negotiations at Geneva were confined primarily to tariff matters and the subject of non-tariff barriers was barely considered. The ability of many segments of American industry and agriculture, including wine growing, to expand their foreign trade will depend in great part on whether the United States can obtain reductions in tariffs not effected or touched upon at the Kennedy Round and the modification or elimination of the many non-tariff barriers which exist in many countries around the world. Many of these non-tariff barriers violate provisions of GATT. Other non-tariff barriers, while not illegal, clearly hamper and hinder trade.

In the second instance, it must be recognized that the development of the European Economic Community, with its many benefits accruing to this country, has seen established a policy which utilizes a system of non-tariff barriers to completely control the importation of goods into the Community. This policy is extremely nationalistic and provides a degree of protectionism not indulged in by any industrial nation in modern times. Further, this policy makes a shambles of GATT, particularly as it relates to agriculture. The ability of the United States to secure modification of the non-tariff barriers of the EEC and to harmonize the policies of the EEC with those of GATT can have a major effect on the ability of some segments of American agriculture to expand foreign trade.

The California wine and brandy industry applauds the proposals of the Administration, accompanying the recently submitted Trade Expansion Act of 1968, to seek in future international negotiations removal of these non-tariff barriers blocking United States products from competing for world markets.

IV. MEASURES DIRECTED AT MAINTAINING OUR FAVORABLE BALANCE OF TRADE AND OTHER MATTERS RELATED TO THE BALANCE OF TRADE IN THE CONTEXT OF OUR BALANCE OF PAYMENTS PROBLEMS

Foreign wine and brandy move freely in the United States, subject only to the payment of very low U.S. excise taxes and import duties, with the result that the California wine industry, and indeed the American wine industry, is slowly losing its historical share of the American market. In 1958 foreign wines had 5.9% of the American market and in 1967 approximately 9.6%. Foreign wine sales have doubled in the last ten years while the sale of American wine has increased but 31%.

The overall figures and comparisons tell but part of the story. Table wine sales, using 1958 to 1959 as a base, in 1967 by France are 266.9 of base period; by Spain 758.8, and by Portugal 1003.4. Sales of American table wine have increased by approximately 60% for the same period.

Dessert wine sales, same base: Spain, 1967 over base period, 180.3; Italy, 1967 over base period, 210.6; France, 1967 over base period, 508.3. Sales of American dessert wines have *decreased* by approximately 10% for the same period.

Studies of the Giannini Foundation of Agricultural Economics of the University of California have established that the market for wine and brandy both in the United States and elsewhere is a closed or rigid market, that it does not react in a normal manner to the supply-demand-price equation. Under these circumstances, the continuing increases in importation of foreign wines and brandy into the United States market obviously results in a displacement of United States wines and brandy to the grave economic detriment of the California and United States wine and brandy industry.

The ability of American producers of wine and brandy to develop or expand foreign trade, with its concomitant effect on our balance of payments problems, must be based on the maintenance of a sound healthy domesitc operation. Any import factor which consistently and abnormally contributes adversely to such an operation should be corrected as a matter of national policy. Present authorities are inadequate in many instances to bring about corrections or relief in an expeditious manner.

We do not advocate, in any case, a course of action which would reduce any quantity of imports below current levels. We do desire and believe reasonable, however, as expressed under (I) of this statement, the establishment of some type of limitation on the future movement into the United States of low quality products.

RECOMMENDATIONS

In summary, we advocate a freer movement of American wine in international trade and a change in the foreign trade policy of the United States as such policy relates to wine. We do not advocate a "protectionist" attitude, and our proposals are based on a free and equitable world trade policy. In the interest of equitable treatment between the countries and to the end that a reasonable reciprocity be effected in the movement of wines of foreign countries and those of the United States, Wine Institute urges the adoption of a national policy that would accomplish the following:

1. The removal or modification of all non-tariff barriers in other countries consisting of—

(*a*) Import licensing, exchange controls, special labeling requirements, special levies, special taxes and other restrictions.

(*b*) Quotas or quota systems which do not provide automatically a quota for American wines. (Specifically, we urge adoption of a national policy in trade negotiations that any country using a quota system for the importation of wine provide a reasonable quota for the wines of the United States. Any country which refused to grant such a quota should not be permitted to market its wines in the United States.

(*c*) Treaties or agreements which preclude the sale and distribution in foreign countries of wines produced under the laws and regulations of the United States Government. (Specifically, we urge insistence that where certain labeling of United States wines (i.e., Champagne, Sherry) conflicts with existing policy of a foreign country, or conflicts with international agreements to which the importing country is a signatory, such labels be accepted by the foreign country if it is clearly shown that the wine has been produced in the United States or if the label is of a varietal classification acceptable under the laws and regulations of the United States, provided that the label distinctly eliminates any possible deception to the consumer.)

2. The reduction of tariffs on wine and brandy in all countries where such tariffs tend to impair the development of an international market for American wines.

3. The limitation on imports into the United States of low quality, low priced wines and brandy by one of the following means:

(*a*) Establish a market sharing quota for wines by price category for each country exporting wine to the United States to the end that the lowest valued segment of wines exported from any country representing 20% by volume of *all* such country's wine shipments during the year preceding, be permitted to expand at a rate no faster than the volume of all other wines shipped into the United States by the exporting country.

(*b*) Secure a voluntary restriction of such low quality wine by the country of export.

(*c*) Provide a system of variable tariffs. Such a system would envisage a high tariff rate on the low quality, low priced import, with graduated reductions in rate for the better quality product. Such a system would offer the reasonable protection needed to control low quality imports, encourage the export of better quality products by foreign producers, and protect the American consumer.

(*d*) Provide a market sharing quota for all wine and brandy imports.

(*e*) Seek the development of an international wine agreement.

Present authorities do not provide a practical approach to solving many of the problems facing the American wine industry nor is there existing authority to move in the direction indicated by some of the recommendations delineated above. To illustrate: Section 301 (the so-called "escape clause") of the Trade Expansion Act of 1962 cannot provide the safeguards needed because the Tariff Commission policy is that "unless the Commission finds the concessions are in fact the major cause in the increase in imports, it is foreclosed from ultimately making an affirmative finding irrespective of the contribution which the increase in imports makes toward causing or threatening serious injury." The purpose of this inquiry under law is to determine damage or "potential" damage. The Tariff Commission has ruled that potential damage means, in effect, that the imports involved must be in the United States and that damage has occurred to the domestic industry involved.

We believe it should be the policy of the United States to recognize potential damage as that which is reasonably possible or in the making. Such a policy would permit the Executive Branch to consider courses of action now beyond the realm of possibility or feasibility.

It should here be noted that the California wine and brandy industry believes the proposal of the Administration, contained in the recently submitted Trade Expansion Act of 1968, to broaden the eligibility for adjustment assistance by making relief available whenever increased imports are a "substantial" rather than "major" cause of injury is not a satisfactory solution to assisting those businessmen and workers who face serious problem as a result of increased imports. Specifically, as set forth above, said proposed amendment fails to recognize the need of Industry for a policy that recognizes potential damage as that which is reasonably possible or in the making as opposed to the present ineffective policy of requiring that the imports involved must be in the United States and that damage has already occurred to the specific domestic industry involved.

With respect to the problem of the California wine and brandy industry, the low quality segment of imports presently on the American market damages to a degree the sales of American wine *and* the sales of the better foreign wine. Such damage cannot be demonstrated statistically to the extent required by present government policy. However, existing damage, when measured with possible damage or damage in the making, would justify a reasonable action on the part of government to maintain a degree of stability in the market place both for domestic and foreign suppliers.

We strongly urge serious consideration of the contention that new policy *and* new authority is reasonable, necessary and justified.

If it is determined that the present policies of the United States Government relating to foreign trade must prevail without modification, that the United States Government will continue to advocate the free movement of goods in international trade and the avoidance of the use of quotas or other protective devices, even though such policy and advocacy is not reciprocated by other countries, then it be also the policy of the United States to advocate, sponsor and encourage a commodity approach to the problems involved which could result in beneficial voluntary actions by foreign exporting countries or the development of multilateral commodity agreements. Such agreements might be the sole vehicle which would allow participants to modify positions in a manner which would not be inimical or offensive to existing national policies.

CONCLUSION

Wine Institute, and its members, requests that the Committee on Ways and Means give full and favorable consideration to the positions and comments of Wine Institute as expressed herein. We earnestly believe that our views are consonant with the best interest of government, industry and the consuming public.

WINE INSTITUTE,
Washington, D.C., July 12, 1968.

Re: Tariff and Trade Proposals

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is for the purpose of permitting Wine Institute to replay to comments made by the National Association of Alcoholic Beverage Importers, Inc. (NAABI) in its Statement of July 10, 1968, on pages 12 through 22, in regard to the Statement of Wine Institute, filed with the Committee on June 28, 1968.

More specifically, NAABI, in its Statement finding fault with various positions previously advocated by Wine Institute, failed to bring out, perhaps inadvertently, what the California wine industry, and indeed the entire United States wine industry, regards as the crux of the inequities besetting world-wide wine trade, i.e., that it is virtually imposible for the United States wine industry to sell any American wine in any of the wine producing counries of Eturope while European wines are sold in great and increasing quantities in the United States.

NAABI, while choosing to ignore the above, takes issue with our declaration that "Foreign wine and brandy move freely in the United tSates market, subject only to the payment of United States excise taxes and import duties which can best be described as very low." The Importers concluded, on the contrary, on page 13 of their Statement, that "U.S. taxes and duties on imported wines and brandy are not light".

It should be remembered by NAABI that the Internal Revenue excise taxes imposed upon wines and distilled spirits are also applicable to domestic wines and distilled spirits. The 17¢ per gallon excise tax on table wine and 67¢ per gallon on dessert wine clearly indicate, we suggest, that describing such excise taxes as "low" certainly is not stretching the truth. Moreover, the NAABI Statement made much of the alleged discrimination against imported brandies because of the excise tax wine gallon-proof gallon tax assessment. However, at this point we feel obliged to advise the Committee that approximately 50% of the brandy imported into the United Sates is brought in in bulk. Thus, as far as said brandy imported in bulk is concerned, the Internal Revenue excise tax is the same for imports as for the domestic production in that imports are brought in in bulk at a minimum of 100 proof.

NAABI, in concluding that the "duties on imported wines and brandies are not light", points out that the duty on table wine is 37.5¢ per gallon and $1.00

per gallon on dessert wine (still wine over 14%). (A dessert wine entitled to a type designation which includes the name "Marsala" on the label is subject to a duty of only 42¢.) The Statement of the NAABI might also have pointed out that the 1967 U.S. duty rate on champagne and other sparkling wine was $1.50 per gallon but that effective January 1, 1972, this duty, because of the Kennedy Round concession, will be reduced to $1.17. Similarly, vermouth, not in bulk, was subject to a 1967 duty of 26.5¢ while on January 1, 1972, this will be reduced to 21¢. Vermouth in bulk is subject to a 40¢ per gallon tariff, with a reduction to 32¢ on January 1, 1972.

NAABI, in calling these duties "not light", did not make reference to the contrast between the American rates and those of the European Economic Community (EEC), popularly referred to as the Common Market. The Common Market group contains three of the leading wine producing and consuming countries in the world—France, Germany and Italy. The EEC has a Common External Tariff (CXT) rate which was scheduled to become effective on July 1, 1968. All of the EEC countries were to move their individual tariff rates up or down to meet said Common External Tariff rate.

Thus, the EEC would assess still wine with an alcoholic strength of 13° or less, in containers of a capacity of 2 litres or less, a duty of 48¢ per gallon. Such table wine with an actual alcoholic strength of more than 13° but not more than 15° is subject to a 56¢ per gallon tariff. Sparkling wine would pay a duty of $1.60 per gallon.

Similarly, vermouth with an actual alcoholic strength of 18° or less will pay a duty of 68¢ per gallon if packaged in containers with a capacity of 2 litres or less; if more than 2 litres, the amount will be 56¢ per gallon. Vermouth with an alcoholic strength of more than 18° but not more than 22°, in containers with a capacity of 2 litres or less, must pay 76¢ per gallon. The tariff will be 64¢ for such wine packaged in containers with a capacity of more than 2 litres. It should be noted that none of these wines were the subject matter of any Kennedy Round concession by the EEC.

Therefore, as we have attempted to set forth above, the fact that wines entering the Common Market countries—including France, Germany and Italy—are subject to a higher tariff duty than comparable wines entering the United States casts serious doubt, we submit, upon the validity of the contention of the NAABI that duties on imported wines are "not light". It should be noted, most importantly, that said higher duties are quite apart from the almost total exclusion of United States wines from the markets of the major wine producing countries of the EEC, and Spain and Portugal.

U.S. duties for brandy, as for wine, are quite low in comparison with those imposed by the EEC. At present, brandy imported into the United States valued at not over $9, in containers not over one gallon, pays a duty of only $1.12 per gallon, which amount will be ultimately reduced, on January 1, 1972, to 62¢. Such brandy in bulk presently pays a duty of 90¢, which amount will likewise be reduced to 50¢. Once again these rates should be contrasted with those in the EEC where brandy bottled at 86 proof pays $2.99 per gallon, while brandy imported in bulk at, say 100 proof would pay $3.41. Furthermore, brandy was not the subject matter of any Kennedy Round concession concerning the CXT.

The California wine industry would like to make one other observation regarding the Importers' feelings that their products are discriminated against. Specifically, foreign wines may be sold in the American market in bottles of any size while American wines may only be introduced into interstate commerce in specific sizes. European wines are therefore marketed in a profusion of sizes. Their 24 oz. bottles compete with our fifth (25.6 oz.), for consumer acceptance. Obviously it costs less to package a 24 oz. bottle of wine than a 25.6 oz. bottle. Less taxes are paid on a 24 oz. bottle and 1,000 gallons can be stretched further.

NAABI, on page 15 of their Statement, claims that Wine Institute is mistaken in taking the position that the "domestic wine industry is slowly losing its historical share of the American market". After expressing doubt upon the existence of an "historical share" of any market, the Importers go on to show that the American wine industry has not suffered a percentage loss in domestic sales but has registered a gain—by the arbitrary comparison of 1937 with 1967.

NAABI, for some reason, did not deem it relevant to consider the years in between 1937 and 1967, the years in which the United States wine industry had the opportunity to grow into the large industry it is today. Certainly in 1937, shortly after the repeal of Prohibition, the American wine industry had not yet developed to any degree of maturity. National repeal had just ended in December 1933, but many states and counties remained dry. A public brought up during Prohibition on beer and bootleg spirits had not yet acquired a taste for wine. Furthermore, the domestic industry was virtually cut off during the Prohibition years which meant it takes a minimum of four years for new vineyards to come into harvest. Thereafter, it takes approximately two years before proper wines can be produced for the national market. Obviously, the selection of 1937 is a completely illogical choice for statistical purposes.

The California wine industry believes a comparison between domestic and imported shares of the U.S. market for wine, between the years 1951 and 1966 is more meaningful. By 1951, both the American and European wine industry had sufficient mature wines to service the U.S. market. Therefore, both categories were on a free competitive basis in the sale of its products in the United States.

Analysis of the statistics which are made a part of this memo and set out below would reveal that during the period 1951 through 1955 there was less than a 1% deviation up or down from the 95% share of the United States market enjoyed by American wines. These statistics clearly show that the domestic industry today does not enjoy "a far more substantial share of the country's wine . . . market than may reasonably be claimed by or for it as its 'historical' share" as concluded by NAABI on page 17 of their Statement.

COMPARISON BETWEEN DOMESTIC AND IMPORTED SHARES OF U.S. MARKET FOR WINES BETWEEN YEARS 1951–66

Year	Quantity in gallons		Percent of total	
	United States	Imported	United States	Imported
1951	121,292,000	5,222,000	95.9	4.1
1952	132,248,000	5,372,000	96.1	3.9
1953	134,640,000	6,156,000	95.6	4.4
1954	135,754,000	6,402,000	95.5	4.5
1955	138,028,000	7,158,000	95.1	4.9
1956	142,220,000	7,819,000	94.8	5.2
1957	143,381,000	8,500,000	94.4	5.6
1958	145,585,000	9,048,000	94.1	5.9
1959	146,319,000	9,904,000	93.7	6.3
1960	152,616,000	10,736,000	93.4	6.6
1961	159,479,000	12,153,000	92.9	7.1
1962	154,041,000	14,041,000	91.6	8.4
1963	161,549,000	14,368,000	91.8	8.2
1964	170,069,000	15,556,000	91.6	8.4
1965	173,391,000	16,286,000	91.4	8.6
1966 [1]	173,168,000	17,979,000	90.6	9.4

[1] Preliminary.

Sources: Internal Revenue Service, U.S. Treasury Department and Bureau of the Census, U.S. Department of Commerce.

Wine Institute has also been taken to task for objecting to the European registration of wine appellations by place of origin which is used to justify, along with other non-tariff barriers, the almost total exclusion of American wines from the European market. We, who are denied access to these European markets, are accused of "presumption and arrogance" by the very people who deny us such access but who in turn have unhindered accessibility to our American market. We are so accused because we would like to see this system eliminated to the extent that our wines properly identified and labeled as "American", "California", or "New York" may be sold in such wine producing countries of the EEC, and Spain and Portugal.

We do not believe it is necessary to repeat the arguments previously made. However, the Committee should be made aware of the fact that there is presently being merchandised not only in Europe but also in the United States, Swiss cheese that is not produced in Switzerland but is produced in other countries in Europe. The same arguments with respect to laches, etc., that have been pointed out in the NAABI Statement would certainly be applicable in the case of the wines that have been developed and merchandised in the United States over many years.

NAABI, in opposing our suggestion that national policy dictates some type of control over the bottom 20% of the importation from each country into the

United States of low quality, low priced wines to prevent damage to the domestic industry, states on page 22, "This association stands for free and open trade for imports and free and open trade for exports. We oppose any quota system on either side of any ocean, as it tends to restrict artificially the consumer choice, as well as the obvious free flow of commerce."

The California wine industry is amused by the quoted language. The Importers in making this statement completely overlook the almost complete inability of American wines to secure access to the major wine producing and consuming countries of the EEC, and Spain and Portugal. Quite apart from the danger to the American wine industry resulting from the increased flow into this country of these low quality, low priced wines—and spelled out in our Statement to the Committee—the heroic attitude of the NAABI against European trade barriers is hardly compensated for American producers whose products are denied entry into the European market.

Respectively sumbitted.

DON W. McCOLLY,
President and General Manager.
ARTHUR H. SILVERMAN,
Washington Counsel.

STATEMENT OF ROBERT W. COYNE, PRESIDENT, DISTILLED SPIRITS INSTITUTE, INC.

INTRODUCTION

The Distilled Spirits Institute, Inc., Washington, D.C., is the national trade association of the domestic distilling industry. Its members sell approximately 80% of the beverage spirits produced and sold in the United States, and account for the majority of distilled spirits exported from the United States. I know that our member companies join me in extending our thanks to the Committee for this opportunity to be heard.

The Institute has played a continuing interest in the formulation and implementation of our national trade policy. DSI has presented oral or written statements before a variety of national and international agencies such as the United States Tariff Commission on section 301(b) of the 1962 Trade Expansion Act (1963); Committee of Senior Officials on Wine and Spirituous Liquors of the Council of Europe in Strasbourg, France, upon the recognition of Bourbon as a distinctive product of the United States (1967); Trade Information Committee of the Office of the Special Representative for Trade Negotiations upon Renegotiation of Tariff Schedules granted by the Government of Venezuela (1967) and upon the future of U.S. Trade Policy (1968). This hearing upon the proposed "Trade Expansion Act of 1968" provides an impressive forum for us to present our views upon the posture of our nation's trade policy as our industry is affected by it.

We are, of course, fully in accord with the basic purposes of the Act as set out in Section 102 of H.R. 17551, and particularly with the avowed goal of reduction or elimination of nontariff barriers to trade. We most emphatically agree with the statement of the President of the United States in his recent message *Greater Prosperity Through Expanded World Trade* that:

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

We agree that the progress made to date in opening channels of trade should not be jeopardized by new trade restrictions imposed by this nation upon the products of our trading partners, but at the same time, we do not wish to see the nation weaken its position by bargaining away too much of its relative strength in return for promises of reciprocity.

We agree that protectionism should not be the ruling factor in the creation of our trade policy, but we feel that some degree of indemnification from the adverse effects of discrimination against this country is required.

We agree that the nation should be ready to meet any reasonable suggestions of our neighbors which will improve our trade relationships, but we ask that the proposed legislation contain certain guarantees against nontariff barriers which operate to impede such relationships.

NONTARIFF TRADE BARRIERS AS DISCRIMINATION AGAINST THE COMMERCE OF THE UNITED STATES

Nontariff trade barriers come in many guises and take many forms, but the end result of the introduction of such elements into the trade relationship is inevitably the frustration of the purpose of international trade, which is to benefit all of the participating nations through a free interchange of products. Unfortunately, because each nation must see to its own economic security, the line between a trade barrier and a legitimate exercise of financial responsibility by a nation is often difficult to lay down with precision. However, there are many elements introduced into the trade relationship by certain of our neighbors around the world which are clearly, we believe, intentional barriers to trade.

For instance, a very troublesome nontariff barrier is that of a license system predicated upon a quota. This device is currently employed in Japan and Mexico and it creates serious problems in establishing and maintaining trade relations with those nations.

Some countries impose excise taxes which apply unequally as between imported and domestically produced alcoholic beverages. This occurs in Argentina, Finland, Malawi, the Netherlands, Nicaragua and the United Arab Republic.

The Dominican Republic requires a deposit (equal to 40% of the f.o.b. value) to be made 6 months prior to importation and even then, imports can be made only under a prepaid letter of credit.

While the foregoing example represent only a fraction of the types of barriers encountered, they should serve to show the gravity of the problems which the industry must face.

We might note that aside from industry complaints concerning the existence of such barriers, the Administration is quite cognizant of the dangers of such impediments to trade. For example, in testimony before this Committee on February 5, 1968, concerning the Administration's Balance-of-Payments proposals, Ambassador Roth, the Special Representative for Trade Negotiations stated that:

"There are important nontariff barriers still outstanding and there is a danger that, as tariffs are reduced, these barriers are likely to have a more severe impact on world trade. One of the most urgent jobs we have ahead of us is to get rid of them. Apart from border tax adjustments . . . we must obtain the liberalization of such practices as undue protection through state trading, preferences to domestic producers in filling public procurement contracts . . . and onerous and unnecessary health and sanitary regulations to name only some of the measures that impede American exports." (Hearings, Part 1, p. 277.)

We concur in this estimation and cite this example of the Administration's interest in the problem because while H.R. 17551 speaks of nontariff barriers, the references are too limited, and primarily domestic, situations. It is our belief that the "Trade Expansion Act of 1968" should contain a provision concerning the future conduct of our trade policy with respect to the imposition of nontariff barriers on American produced goods by foreign nations. There are precedents for a declaration by the Congress of the intention of this nation not to be disadvantaged at the hands of our trading partners which are, we think, apposite to the proposal we wish to make, and we would like to call the attention of the Committee to the following statutes.

EXISTING DECLARATIONS BY THE CONGRESS OPPOSING TRADE DISCRIMINATION BY FOREIGN NATIONS AGAINST THE UNITED STATES

The Congress has in the past vested considerable discretion in the President of the United States with respect to steps which he may take to insure that American made products shall not be discriminated against by other nations. For instance, the following statute, which was passed in 1890, states that:

"Whenever the President shall be satisfied that unjust discriminations are made by or under the authority of any foreign state against the importation to or sale in such foreign state of any product of the United States, he may direct that such products of such foreign state so discriminating against any product of the United States as he may deem proper shall be excluded from importation to the United States; . . . and in such case . . . the importation of the articles . . . shall be unlawful." (19 U.S.C. 181)

While this particular remedy is somewhat more drastic than what we propose with respect to nontariff trade barriers, it does show that the Congress has in the past been willing to insure that American products would be secure from discrimination. The intention of this nation to protect its exports has been further evidenced in these statutes:

1. (a) The President when he finds that the public interest will be served shall by proclamation specify and declare new or additional duties as hereinafter provided upon articles wholly or in part the growth or product of, or imported in a vessel of, any foreign country whenever he shall find as a fact that such country—

(2) Discriminates in fact against the commerce of the United States, directly or indirectly by law or administrative regulation, or practice, by or in respect to any customs, tonnage, or port duty, fee, charge, exaction, classification, regulation, condition, restriction, or prohibition, in such manner as to place the commerce of the United States at a disadvantage compared with the commerce of any foreign country. (19 U.S.C. 1338—Tarriff Act of 1930)

2. (a) Whenever unjustifiable foreign import restrictions impair the value of tariff commitments made to the United States, oppress the commerce of the United States, or prevent the expansion of trade on a mutually advantageous basis, the President shall—

(3) notwithstanding any provision of any trade agreement under this chapter and to the extent he deems necessary and appropriate, impose duties or other import restrictions on the products of any foreign country or instrumentality establishing or maintaining such foreign import restrictions against United States agricultural products, when he deems such duties and other import restrictions necessary and appropriate to prevent the establishment or obtain the removal of such foreign import restrictions and to provide access for United States agricultural products to the markets of such country or instrumentality on an equitable basis. (19 U. S. C. 1882—Trade Expansion Act of 1962)

These laws prove, we believe, the intent of the Congress, and the nation it represents, to take those steps necessary to insure the viability of the American trade program while making every reasonable accommodation to our partners in international trade. That is precisely the purpose of our proposal concerning nontariff trade barriers.

PROPOSAL CONCERNING TREATMENT ON NONTARIFF BARRIERS TO TRADE AS DISCRIMINATION AGAINST THE COMMERCE OF THE UNITED STATES IN FUTURE NEGOTIATIONS ON RECIPROCAL AGREEMENTS

As we have indicated above, the nation should take the opportunity to reiterate its intention to maintain a strong trade program through the passage of a Trade Expansion Act this year. This intent can best be expressed by the presence of a provision in the law which will allow those charged with the management of our trade program to respond to the presence of nontariff barriers to trade. We believe that in all future negotiations and in the implementation of programs arising out of such negotiations, the United States should take affirmative steps to see that foreign import restrictions which prevent the expansion of trade are neutralized by a like imposition of restrictions until the channels of trade can be opened once again.

As to the particular language which might be used to achieve the desired ends, we suggest that consideration be given to the amendment of Section 1882 of Title 19 of the United States Code. (Section 252 of the Trade Expansion Act of 1962). That section quoted in part above provides, among other things, that the President shall have the authority to impose various types of restrictions in response to foreign import restrictions. For reasons which are not clear to us, the section specifies in (a) (3) only agricultural products. An examination of the Committee reports on the 1962 Act which includes this section does not explain why the limitation as to the type of products involved exists. In any event, we submit that amendment of that section, 1882(a) (3) in such a way as to include manufactured products as well as agricultural products, might achieve the desired end. This could be done by striking the word "agricultural" where it appears in the section, or by adding the words "manufactured and" before "agricultural products" in each instance. We note that the action taken under this part of section 1882 appears nowhere else within the section and then only with reference to agricultural products.

We are not unaware of the fact that opponents of such a suggestion might well allege the difficulties of administration of such a proposal. In rebuttal, we might point out that H.R. 17551 contemplates delegation of Presidential duties to his subordinates. The Committee Print containing H.R. 17551, as well as the President's message, also includes a section-by-section analysis of the proposal. Under Section 301 of that analysis, it is noted that "It is expected that the President will delegate this function and his other functions under this section." This being the case, we see no reason why the duty of recognizing and responding to nontariff barriers to trade should not be delegated to the proper governmental agency. There are several obvious reasons for such a suggestion, but there are others not so apparent

For example, we have discovered that with the liquor industry it is difficult to gather and assess accurately, the information received from our member companies concerning their experience with nontariff barriers. (We might parenthetically speculate that such information is probably difficult to gather in any large industry.) There are several factors which contribute to this situation, such as the competitive nature of the industry, the variety of products being exported, the fact that no one company has experience in all of the countries receiving exports of alcoholic beverages, etc. The end result, is, of course, that while individual complaints are heard, only limited machinery is available within the industry to gather accurate and relevant data on the nature of the barriers which exist. The same is not true of the government. There are, within certain agencies of our government, experts and specialists in all facets of trade with every nation. For example, the Trade Information Committee of the Office of the Special Representative for Trade Negotiations has published detailed information on nontariff trade barriers. [See 114 Cong. Rec. S2412–S2419 (March 7, 1968) and S4016–S4019 (April 10, 1968) for examples of such data]. We feel, therefore, that the information already available to the government agencies, as well as the facilities present for the gathering of the information required to make a balanced judgment, dictate the responsibility for administration of the type of proposal we have made.

We can envision a central clearinghouse, if you will, of information on alleged nontariff trade barriers which would produce the accurate information necessary to guide a reasonable policy. Upon complaint of an industry that a certain nation was conducting its affairs in such a way as to frustrate equitable trade, machinery would be available to confirm or to deny the existence of such a barrier. The President could then act in response to a certification of such a barrier by the information gathering agency, and, in so doing, help to preserve the strength of our foregin trade program.

It would be implicit that such a procedure would be administered fairly and would disclose and high point nontariff barriers that might develop in the U.S. market against imported products. It would not be a "one-way street."

If it is true that the problem of nontariff barriers to trade is to increase in scope and in dimensions, and we believe that this will occur, then the United States must be prepared to meet any contingency in this area.

Statement of John F. O'Connell, President, National Association of Alcoholic Beverage Importers, Inc.

1. Introduction

The National Association of Alcoholic Beverage Importers, Inc. has its office at 1025 Vermont Avenue, N.W., Washington, D.C. 20005. It is a membership corporation representing nearly 100 individuals, partnerships and corporations—Americans all—who are engaged in importing alcoholic beverages from abroad and selling them in the United States. Members of this Association are responsible for approximately 85% of the imports of distilled spirits, wines and malt beverages into the United States.

In this statement we affirmatively support H.R. 17551, the Trade Expansion Act of 1968, and we also submit other comments in pursuance of the Notice of Hearing announced by the Honorable Chairman of your Committee on May 9, 1968.

2. Support of H.R. 17551

It is our considered judgment that H.R. 17551, if enacted, will serve the best interests of this country because it is calculated to open wider the channels of international trade and to promote both the exports and imports of the United

States. We also believe that if the unbridled spirt of protectionism which has been advocated with vehement emotion and relentless reiteration by representatives of some sectors of the American economy should be permitted to move the Congress to repudiate the progress and to repeal the success of recent decades of this country's international trade, it will be a sad day in the history of this, the world's leading trading, nation.

In our support of H.R. 17751, we cite by reference and with approval the arguments and supporting data supplied to the Congress by President Johnson in his message dated May 28, 1968 and in its accompanying "section-by-section analysis", as well as well as in the oral testimony of Members of the Cabinet and of Ambassador Roth.

We also respectfully call your attention to language included in a message to the Congress by another President, John F. Kennedy, who said: "There are many more American jobs dependent upon exports than could possibly be adversely affected by increased imports. . . . The philosophy of the free market—the wider economic choice for men and nations—is as old as freedom itself."

Equally pertinent and forceful is the admonition by President Eisenhower that "For us to cower behind new trade walls of our own building would be to abandon a great destiny to those less blind to the events and tides surging in the affairs of men. . . . As we have learned to our mutual regret, everyone can play the costly game of trade restrictions."

3. REMOVAL OF FOREIGN BARRIERS TO U.S. EXPORTS ADVOCATED

We have read the statements filed with your honorable Committee by the Bourbon Institute (dated June 27, 1968), by the Wine Institute (dated June 28, 1968), and by the Distilled Spiritis Institute (dated July 8, 1968).

We agree with the allegations set forth in all three of those statements that unjustifiable, artificial barriers to the exportaion of American wines and spirits to some foreign countries do exist and we take the liberty of joining those three industry associations in urging the Federal Government to take appropriate action to bring about their removal. Our action in identifying ourselves with the meritorious efforts of American producers of alcoholic beverages to accomplish the removal of those artificial barriers to trade is taken in accordance with the firmly established, traditional policy of NAABI to oppose all such barriers to both *international* and *interstate* trade.

I shall not impose upon your time to record the instances of our direct intervention in support of previous efforts of our industry association colleagues to get justice abroad. They have been neither few nor insignificant and since "actions speak louder than words" they testify with some force to the degree of our commitment to the battle against artificial trade barriers both at home and abroad.

4. COMMENTS ON SOME STATEMENTS BY BOURBON INSTITUTE

Adverting once again to the statements of the Bourbon Institute, our interest in the accuracy and clarity of the record of your hearing constrains us to identify and comment on some statements therein recorded which, if taken at face value and by themselves, might well lead you into misunderstanding or error.

(a) Imported whiskies do not undersell domestic whiskies

We note, first of all, a complaint that the prices of Scotch whiskies have not been reduced pursuant to duty reductions. This must have an unfamiliar ring to your ears after all you have heard from domestic industries complaining bitterly about being undersold by low-priced foreign imports. There is, to be sure nothing cut-throat about the competition offered by imported whiskies. The problem of passing on the duty reductions is twofold; they have been too small and have been contemporaneous with increasing costs of doing business.

To illustrate: the recent duty reduction of 11¢ per gallon on Scotch Whisky is so small a percentage of the purchase price of a fifth as to be virtually lost. Assuming the retail price of Scotch at $5.00 per fifth, the duty reduction amounted to 2.2¢, or 0.004.

Additionally, the periodic increases in the selling prices of Scotch and Canadian Whiskies are attributable directly to increased costs of shipping and handling, as well as inflationary pressures against the cost of the product, pressures which have caused *similar* price increases in domestic alcoholic beverages.

(b) Imports are integral part of over-all U.S. industry

In its discussion of the "Impact of Foreign Distilled Spirits Sales in U.S." the Bourbon Institute magnifies its employment of labor by identifying itself with the over-all industry including the "nearly three-thousand six-hundred wholesale establishments whose chief business is the distribution of distilled spirits and wine, and . . . (the) over 225,000 retail liquor stores, taverns, restaurants, and clubs whose primary source of income is the retail sale of distilled spirits . . . (which) business at wholesale and retail employ over a million persons." (pp. 3–4)

These are impressive statistics and, as will be noted, they depend predominantly upon the involvement of the wholesaling and retailing segments of the alcoholic beverage industry to show the distilling industry's massive employment of the labor force.

Importers of spirits, wines and beers are an integral part of the over-all industry; the same wholesalers and retailers by and large handle both imported and domestic products; the same use of of transportation facilities, salesmen, advertising media and promotional material is made by both; and American distiller, bottlers and rectifiers themselves make substantial use of their own facilities, manpower and supplies to reduce in proof and bottle the more than 16.7 million proof gallons of distilled spirits imported in bulk and bottle in this country during 1967.

The failure of the Bourbon Institute to submit these data in connection with its comments regarding the importance of domestic spirits to the economy of this country left important aspects of that story untold. From the standpoint of labor employment, it matters naught whether employees of wholesalers and retailers are called upon to handle Bourbon, Scotch, Canadian or Irish whisky; the same number of jobs for employees of wholesalers and retailers will exist whether domestic distilled spirits represents 89% of the whiskey market, 79%, or any percentage one might suggest.

(c) *Domestic spirits out-gaining imports in terms of volume increases*

In the statement of the Bourbon Institute the decline of American spirits' share of the U.S. market is discussed on pages 4–5. The facts cited establish the fact of the decline expressed in percentage. As will be seen by the table attached hereto and made a part hereof (marked Exhibit A) the absolute gain in volume registered by imported spirits during the period, 1962–1967, was only about 9/17 of the gain recorded by domestic spirits.

(d) *Consumer preference for light whiskies growing*

It is likewise interesting to note from Exhibit A that the only type of domestic distilled spirits which failed to show an increase during that period was bonded whiskey, a fact that testifies to the changing taste preferences of American consumers.

This points up the fact that the degree of consumer choice of any product depends upon many variables, only one of which—albeit an important one—is the tax and duty imposed, in the final analysis, on the product's consumer. Changing community tastes, mores, social attitudes and economic status, as well as the expanding influence and participation of women in the selection of alcoholic beverages play an important role. It is no secret that a product's identification with that which is sophisticated, prestigious or "proper" in circles that for one reason or another set standards that are accepted, adopted and followed on a widespread basis from coast to coast is an invaluable asset, especially in a healthy economy.

All these facts should be considered in evaluating the decline of domestic distilled spirits' share of the market as presented to you by the Bourbon Institute.

(e) *U.S. Government's authorization of light American whiskey will promote expansion of domestic whiskey sales*

You should also consider in this same frame of reference, I venture to suggest, the attachment of some U.S. distillers to the production of heavy-body whiskies in the face of the unquestionable preference of a multitude of consumers for light whiskey. You are aware, I am sure, that one leading U.S. distiller after another pleaded with the Alcohol and Tobacco Tax Division, Internal Revenue Service, to authorize the production of a light-body American whiskey in order to permit American distillers to produce a whiskey that would satisfy the taste preferences of an ever-growing number of American consumers. These pleas were granted when the Commissioner of Internal Revenue on January 25, 1968 issued an order authorizing a new type of whiskey to be known as "light whiskey" (T.D. 6945). This decision undoubtedly will provide the domestic distilling industry with a better basis upon which to mount its efforts to recapture some of the considerable number of consumers who rejected the heavy body domestic whiskies because of their preference for light whiskies, including Scotch and Canadian.

These facts should have been submitted to you by the Bourbon Institute in its discussion of the "share of the market." Its silence may have resulted from its failure to support the efforts of the several American distillers who importuned the Alcohol and Tobacco Tax Division to grant the relief which was later emboided in T.D. 6945.

(*f*) *Recognition of bourbon whiskey as distinctive U.S. product under active consideration by the Council of Europe*

Under the caption "Imports versus Exports: Export Problem", the Bourbon Institute discusses efforts of its producers to have Bourbon Whiskey recognized in foreign countries as a distinctive product of the United States. It should be mentioned here that this proposal is right now under active consideration by the Council of Europe where its claims have been forcefully asserted by the U.S. Observer Delegation headed by the Chief of Basic Permit Branch of the Alcohol and Tobacco Tax Division, Mr. Robert O. Jolin, and by the President of the Distilled Spirits Institute, Mr. Robert W. Coyne. In passing, I might mention that in my official capacity I have been privileged to enlist support for recognition of Bourbon by the Council of Europe from my counterparts in several member countries of the Council of Europe.

(*g*) *U.S. employing harsh barrier against cognac imports*

In the third paragraph on page 8 of the Bourbon Institute's statement, this language appears: "We prohibit American producers from making Cognac here, so there is no direct domestic competition. Yet France not only refuses to recognize the distinctiveness of Bourbon Whiskey, but it actively discriminates against the sale of Bourbon in France by prohibiting its advertising in any form."

The facts are these: there is no direct competition in this country with Cognac by any product so named but since Cognac is a brandy there is very robust competition from other brandies as you will observe by referring again to Exhibit A and checking the statistics under the heading "Brandy". Furthermore, there is an exceptionally oppressive barrier against Cognac imports in the form of a punitive duty which I shall discuss later.

(*h*) *French ban on advertising grain spirits affects all such beverages including French products*

The reference to the French prohibition of advertising Bourbon involves a provision of French law that forbids the advertising of any distilled spirit made from grain *regardless of the country of origin.* It was written into French law during a "dry" administraiton which was avowedly committed to a program to discourage consumption of alcoholic beverages in France and to promote consumption of milk. Its primary and principal victims were the widely popular spirits *produced in France* and known as Pernod and Ricard.

At the time enactment of that law, Bourbon was little known in France and it was a factor of no significance in the French market. By no stretch of the imagination may it be claimed that this provision of French law was aimed at Bourbon. Its restrictions rest just as heavily upon Scotch, Canadian and Irish whiskies, as well as upon gin, vodka, and all other grain spirits which are produced anywhere, *including France.* It may be pertinent to observe that despite this prohibition, sales of Scotch whisky in France have increased dramatically in recent years. There may be a lesson in this for all of us—instead of spending their time importuning Parliament to set up restrictions on trade with France, the producers of Scotch have sent their sales personnel into France with instructions to go there and sell. Seemingly, this is a good recipe for success.

Like laws in every country which draw their inspiration from champions of the "dry" cause, this prohibition is unreasonable and ridiculous. As a matter of fact, some of the putative beneficiaries of the law, the Cognac producers of Frence, have always stood in opposition to it on the ground that it serves no proper public purpose. It should be an inviting and vulnerable target for United States negotiators in international trade conferences with their French counterparts.

It would be well to keep in mind, however, that no country in the world has on its legal tablets the plethora of senseless discriminatory and unfair laws which were adopted under the inspiration, direction and dictation of the "dry" forces of this country during their halcyon days of power and influence. Since we live in the proverbial glass house of ridiculous laws enacted under "dry" compulsion, we should act with restraint when someone suggests the throwing of stones at the house of another.

(*i*) *U.S. wine gallon-proof gallon method of assessing tax on distilled spirits operates as a monstrous barrier to imported spirits*

On page 10 of its statement, the Bourbon Institute defends the notorious wine gallon-proof gallon method of taxing distilled spirits. How it can defend this monstrous barrier to imports of bottled distilled spirits while it assails far lesser barriers on the books of foreign lands provides a glowing example of inconsistency, sheer, stark, and simple.

Consider, if you please, the following pertinent facts, historical and statistical, of this wine gallon-proof gallon trade barrier:

Whereas domestic distillers are permitted to remove their products from bond at 100 proof and to pay the tax thereon at the rate of $10.50 per gallon, the importer who brings in bottled Scotch or Canadian at 86 proof, as is preferred by consumers and as is customary, must pay the tax on a wine gallon basis. Accordingly, on a bottled import at 86 proof, the *importer* pays both tax and duty on that 14% of the contents which is the water added to reduce the proof from 100 to 86.

This adds up to a tax penalty against bottled imports of Scotch and Canadian at 86 proof amounting to $1.47 per gallon. The following table illustrates the advantages accuring to domestic whiskey under the discriminatory operation of the present law in comparison with imported bottled spirits. The table refers to a gallon of bottled Scotch, Canadian and Bourbon, respectively, all at 86 proof.

	Tax and import duty	Discrimination favoring bourbon	
		In dollars and cents	Percentage-wise
Scotch	$10.50 plus $0.91 equals $11.41	$2.38	26
Canadian	$10.50 plus $1.12 equals $11.63	2.60	29
Bourbon	$9.03 plus 0 equals $9.03		

The history of this measure reveals that until July 21, 1868, the internal revenue tax on distilled spirits was payable on the proof gallon basis only, but on and after that date internal revenue tax was made collectible on the *wine gallon when below proof* to prevent frauds upon the revenue, resulting from the surreptitiously withdrawal of whiskey from barrels in warehouses and the substitution of water by dishonest domestic producers in connivance with dishonest government officials.[1] This punitive and corrective measure was adopted solely because of frauds relating to *domestic distilled spirits, not imports.*

The internal revenue tax was not imposed on imported distilled spirits until October 3, 1917, when the "War Revenue Act of 1917" (40 Stat. 308) took effect. Because of the clause "wine gallon when below proof", imported spirits are burdened with a punitive measure never intended for them. National prohibition became effective in 1920, and the import duty was increased at that time from $2.60 to $5.00 per gallon as a prohibition measure.

5. BOURBON PRODUCERS ENJOY GOOD ECONOMIC HEALTH

We are pleased by the many clear indications that Bourbon producers are enjoying good economic health. According to the July 1st issue of *Beverage Retailer Weekly*, "Sales of Bourbon, America's largest selling distilled spirit, continued to rise during the first quarter of 1968. . . . Scotch Whisky, the leading imported distilled spirit, . . . showed a decline . . ."

The *Bourbon Newsletter* published in April, 1968 by the Bourbon Institute indicates a most rosy picture, as constrasted with political pronouncements calling for the necessity of action against imported distilled spirits. The lead article here says, "Both sales and production of Bourbon, the most popular distilled spirit in the United States, rose to unprecedented height in 1967 . . . the new production figures are a tangible reflection of the optimistic outlook for the future held by the members of this industry. Ever since Bourbon moved into first place in popularity a few years ago, it has been increasing

[1] See House Report No. 24, Second Session, 40th Congress, dated March 12, 1868; "Whiskey Frauds from the Committee on Retrenchment."

its sales at a steady pace." A copy of this article is reproduced in full and attached hereto as Exhibit B.

Let me point out that the producers of Bourbon whiskey are a robust, knowledgeable, resourceful group. They are a credit to the industry of which they are a major component and to American industry as a whole. I am pleased to pay them this well-deserved tribute. They need no advantages in the way of tariff increases or additional barriers to international trade to remain vibrant, vigorous and able to handle themselves in the marketplace.

If they understand that you in the Congress are definitely opposed to constructing a Maginot Line of tariff restrictions and trade barriers behind which they can relax, they will take good care of themselves in the marketplace, of that you may be sure.

6. SERIOUS INDUSTRY PROBLEMS DESERVE CONCERTED ACTION

Certainly, Bourbon whiskey is oppressively taxed. So are imported distilled spirits which pay identical excise taxes and *in addition* pay duties and tax penalties because of the assessment of tax on imports of bottled spirits on a wine gallon basis.

Certainly, Bourbon whiskey sales are seriously hurt by reason of the production and sale of moonshine whiskey which pays no tax of any kind to any agency or level of government. But, please remember that imports are victimized in like manner.

These oppressions we all bear and, as an industry, must constantly fight. This fight is an industry cause that all of us should be presenting to the Congress as an industry; one cause, one position, one voice.

7. COMMENTS ON SOME STATEMENTS BY THE WINE INSTITUTE

The statement submitted to you under date of June 28, 1968 by the Wine Institute would also appear to warrant analysis and comment by us.

(a) Domestic trade barriers burden both imported and domestic products

We are pleased to note, and to join in, its condemnation of "the many and varied domestic barriers to trade (as a result of which) the California wine and brandy industry and other segments in the alcoholic beverage industry have been unable to fully develop the domestic market. . . ." These pernicious barriers to *interstate* trade in alcoholic beverages and their employment in the guise of liquor control measures to favor home industry and home agriculture at the expense of both consumers and out-of-state competitors fully deserve both condemnation and repeal.

It was this situation that inspired the California State Legislature in 1967 to memorialize the Congress "to proceed in such a manner as it may deem appropriate to cause the elimination of trade barriers by the several states . . ."

The frustration experienced by members of the Wine Institute in their search for ways and means of contending with these barriers has been stated conservatively by the Wine Institute.

Members of this Association share these sentiments and these frustrations. We are moved to observe in passing that our experiences cannot begin to compare with the bewilderment and exasperation experienced by foreign producers of alcoholic beverages when they are confronted with our interstate trade barriers, our crazy-quilt of inconsistent and contradictory advertising regulations, the wide and baffling variances in licensing provisions and other statutory and regulatory requirements of the 52 jurisdictions—Federal, 50 states and the District of Columbia—with which they must contend.

(b) U.S. taxes and duties on imported wines and brandy are not light

We must, however, take issue with the assertion appearing on page 2 of the Wine Institute's statement that "Foreign wine and brandy move freely in the United States market, subject only to the payment of United States excise axes and import duties which can best be described as very low." This is a shocking statement; in fact, we have never before heard any informed industry member refer to the $10.50 per gallon excise tax on distilled spirits as "very low".

We should emphasize at the outset that all the domestic barriers that impede the free movement of California wines and brandies in this country burden imported wines and brandies in no lesser degree. Furthermore, although the Federal Excise Tax on Table Wine is only 17¢ a gallon, the duty is 37½¢. Likewise, the tax on Fortified Wine is 67¢ a gallon, whereas the duty is $1. These duties, therefore, burden *imported* wines substantially more than do the excise taxes they bear.

When the duty on *brandy* is considered the seriousness of the Wine Institute's error is brought into sharp focus. Since it is frequently repeated throughout the statement, it is logical to infer that this misconception is central to the Institute's thinking, an inference that would raise poignant questions as to the acceptability and force of much of the Institute's statement.

The details of the discrimination against imported brandies, including Cognacs, tell their own story rather well. Since most of these are bottled abroad at a strength below 86 proof, the degree of discrimination against them by reason of the wine gallon-proof gallon method of tax assessment is even harsher than that against imported bottled whiskies which we have discussed at length hereinbefore. And that is not all! The harshness of the duty on imports of bottled brandy valued at $9 or over per gallon has been compounded by the imposition of a punitive duty of $5 per gallon. The following table provides a good illustration of the dimensions of the discrimination against imported bottled brandy calculated on the basis of one gallon at 80 proof:

	Tax and import duty	Discrimination favoring domestic brandy	
		In dollars and cents	Percentage-wise
Imported (valued $9 or less)	$10.50 plus $1.12 equals $11.62	3.22	38
Imported (valued over $9)	$10.50 plus $5 equals $15.50	7.10	85
Domestic	$8.40 plus 0 equals $8.40		

This supplies another good example of glaring inconsistency on the part of an industry association whose own astigmatism offers no hindrance to its discovery of motes in the eyes of others.

(c) *U.S. wines and brandies share of U.S. current market substantially exceed their historical share*

Let us now move along to deal with another serious mistake given expression by the Wine Institute. Under item II, on page 4, the claim is made that the "domestic wine industry is slowly losing its historical share of the American market", and the same point is again treated under item III on pages 8 and 9.

Now, what is the historical share of the American market which belongs to the domestic wine industry or is claimed for it by the Wine Institute? Prescinding from the question whether any industry group can ever rightly claim any share of any market *in futuro* as its own, let us consider the nature and anatomy of the domestic wine industry's *historical* share of the American market.

The history of this industry as presently established in the United States dates from the Repeal of National Prohibition—from December, 1933. Accordingly, it should be meaningful in the quest for data showing the "historical" share of the market to review the production figures dealing with the year 1937, since the domestic industry had by then been established and was operating on a firm and active basis. The following table presents these data in such manner as to permit comparison between the historical shares of the market thus shown and the current shares:

COMPARISON BETWEEN DOMESTIC AND IMPORTED SHARES OF THE U.S. MARKET FOR WINES AND BRANDIES

[Wine gallons]

	1937 [1]		1967 [2]	
	Domestic	Imported	Domestic	Imported
Sparkling	361,000	577,000	8,707,000	1,916,406
Table wines	15,541,000	1,006,000	76,288,473	11,112,602
Dessert wines	36,490,000	872,000	92,983,000	1,219,123
Vermouth	243,000	1,215,000	5,307,000	4,474,543
Brandy	1,930,000	738,000	8,927,500	2,285,770

[1] Production for fiscal year, July 1–June 30.
[2] Taxpayments.
Source: U.S. Department of Commerce and U.S. Treasury Department.

The domestic wine industry's improvement of its share of the market over its historical position may be expressed percentagewise as follows:

	1937	1967
Sparkling wine	38.5	82.0
Table wine	94.0	87.3
Dessert wine	97.7	98.7
Vermouth	16.7	54.3
Brandy	72.4	80.0

As these tables clearly show, except for table wines, the domestic industry today enjoys a far more substantial share of this country's wine and brandy market than may reasonably be claimed by or for it as its "historical" share.

(*d*) *European appellations of origin are not unjustifiable trade barriers*

The respect for geographic names of origin, officially recognized by most of the wine-producing countries of the world—not including, however, the United States or Soviet Russia—is cited by the Wine Institute as "a serious non-tariff barrier" (p. 5). The reference is to the system of "appellations d'origine", the impressive history of which warrants discussion here.

Far from being a device conjured up by greedy Europeans to exclude American wines from European markets, the system had its origin nearly nine centuries ago. In 1199, to be precise, King John of England granted a charter to the French town of St. Emilion, at that time an English possession. Shortly thereafter, St. Emilion, together with eight adjacent hamlets, were authorized by the King to produce and package wines under the name, Semilione. This was an exclusive right which no wine produced elsewhere could share. Thus was born a system of identifying wines with specified geographical areas where they are produced, with exclusive rights to use the names of those areas in description of the wines there produced.

When the Congress, in its wisdom, adopted Senate Concurrent Resolution 19 on May 4, 1964 it recognized Bourbon Whiskey as a distinctive product of the United States and called upon the Director of the Alcohol and Tobacco Tax Division to incorporate this designation into Federal Alcohol Administration Regulations No. 5.

The Director thereafter held a hearing at which I appeared and testified in my capacity as President of this Association in support of the proposed amendment. Since my testimony on that occasion advocated official recognition of the claim of Bourbon Whiskey to the right to the exclusive use of that appellation—against the claim of any foreign person or foreign country, whomsoever or whichsoever,—it is pertinent and relevant to the question of the rights of the wine producing countries of Europe to the exclusive use of their own historical appellations of origin. Accordingly, I take the liberty of quoting the following testimony which I was privileged to offer before the Director of the Alcohol and Tobacco Tax Division in support of the claim of Bourbon Whiskey to the right of exclusive use of that appellation throughout the civilized world, a right not lost because of its appropriation by some countries in the Western Hemisphere and in Continental Europe:

"We believe that the proposed regulation will protect the consumer from spurious products, from the guile and deception of imitators, yes, even from genuinely good products which seek distinction, acceptance and acclaim, not through the relatively lengthy processes usually employed in building a reputable business, but rather through the usurpation of the previously established prestige and good name of like, but different, products.

"We believe that bourbon whisky is historically identified with the United States, that is indigenous to our soil and that any attempt to apply this term to distilled spirits produced in any other country would be wrong in principle, improper in motivation and contrary to the best interests of the United States and to consumers everywhere.

"We believe that such use would injure the standing of bourbon whisky, would deprive its producers of a valuable asset that has been created through nearly two centuries of constant effort and honest toil and would impair the confidence of consumers.

"We believe that the identification of alcoholic beverages with specific countries or with specified areas of specific countries is a sound and widely, though not universally, respected practice; that it has contributed immeasurably to the development of exquisite products which deservedly lay claim to distinguished uniqueness; and that through both national and international protection of appellations of origin have the common interests of producers and consumers been respected and honored.

"We believe that it has been well said that imitation is the sincerest form of flattery. Yet, this truth provides neither protection for the consumer who might buy a bourbon whiskey produced in Madagascar nor solace for the producer who stands by helplessly while the product of his ingenuity and his country's soil and climate is thus maligned and its good name pirated.

"We believe that usurpers of appellations of origin in the long run pay a price for the temporary advantage which their usurpations generate—a price that justice inexorably exacts through the consumer's stamp of "imitation" on the usurper's product. The penalty so exacted does not, however, compensate fully for the injury done the original producer and his product. Consequently, governmental action to restrict the use of the name geographically is justified, reasonable and necessary.

". . . .

"We believe that there is impressive precedent abroad for this proposed recognition of bourbon whiskey by the United States. Consider this: for centuries Sherry, Porto, Asti, Tokay, Johannisberg, Champagne, Sauternes, Cognac, Bordeaux, Burgundy, and other wines and spirits have been identified with areas of Spain, Portugal, Italy, Hungary, Germany and France. They have been protected by the governments of those countries through the delimitation of the boundaries of the areas of the producing regions which may use these names—official actions intended to protect producer and consumer.

"We believe that international recognition of the importance of geographic identification of indigenous products by many European countries points up the propriety of your proposed action. This recognition is highlighted by the Madrid Agreement of 1891 signed by 28 countries; the Convention of Union for the Protection of Industrial Property, which met at The Hague in 1925; the deliberations of the International Chamber of Commerce meeting at Berlin in 1937; and of the United Nations Conference on Trade and Employment held in Havana, Cuba in 1947–8.

"Throughout these meetings, conferences and agreements run these themes: (1) As the soil belongs to men, so fame is the fruit of their labor. Whoever usurps it committs an injustice. The appellations of origin are, for the area and the men who founded them, an indefeasible property.

"(2) Appellations of origin connote quality as well as origin and help to prevent consumer deception.

"These efforts of businessmen and public officials of other countries to recognize and protect appellations of origin for products of their own and other countries provide support and justification for the designation by the Government of the United States of bourbon whiskey as a unique product of the soil and climate of this country and the aristry of American distillers.

"So, too, will your proposed action justify and inspire similar protective action by other governments, all of which may well lead ultimately to greater respect and protection throughout the international community for all well-founded and meaningful appellations of origin. This identification of the unique products of individual countries, which are indigenous to their soil, climate and skills, will place a premium on high quality products thus fostering an uncompromising search for perfection and expanding enjoyment of the better things of life throughout the world."

Every claim which I asserted on behalf of Bourbon Whiskey can rightfully be asserted, often with far greater historical justification, on behalf of European products employing long-recognized appellations of origin.

The Wine Institute insists that European countries must abandon their centuries-old system of appellations of origin in order to admit American wines into their markets and they seek your help in this venture. No point is made by them of the possibility or likelihood that some day—perhaps, some day soon—American vintners will, in response to their justifiable pride in the quality and marketability of their fine wines, assign names to them that will signify American geographical areas, American origin, American heritage, American aristry, American technology and, yes, American pride. The fact is that some American vintners have already taken steps in that direction with commendable vision and confidence. Their vision and their voice unfortunately have not been acknowledged or given expression in the statement of the Wine Institute.

Under the foregoing circumstances, does not this demand of the Wine Institute, however irenic its intentions, take on colorations of presumption and arrogance? And is there not warrant for the finding that it is ill-considered and wanting in merit or justification?

Although European names of origin may legally be used on labels on domestic products in this country if such qualifying words as "American," "California," etc. are added, this hardly justifies the attempt to give extra-territorial effect to this American permissiveness, particularly since such usage contravenes provisions of international treaties and the laws of other countries, provisions, incidentally, which were conceived and adopted without any purpose of discriminating against the wines of the United States.

The failure of the wine producers of Europe to take official steps to nip in the bud the usurpation by American producers of the former's geographical wine names has probably cost them the chance of getting injunctive relief in this country. But, call it what you will, sleeping on their rights, laches, waiver, acquiescence, indifference or stale demands, the forfeiture or loss of the right to such relief in the United States is wholly without force in imputing any corresponding forfeiture in other countries as a matter of law, equity or fundamental justice.

Accordingly, we suggest that you reject the suggestions of the Wine Institute (No. 1–c on page 11) that acceptance of labels on American wines be demanded of foreign governments by the Government of the United States.

(e) *Proposal to control "bottom 20% of low quality" imports is impractical*

The Wine Institute's contention (p. 14) that "the low quality segment of imports presently on the American market damages to a degree the sales of American wine *and* the sales of the better foreign wines" is probably true, whether or not demonstrable. The description, "low quality" as thus used would seem to be equated with "low priced" but we are at a loss to understand how this equation can be proved and who is to be the judge of quality.

If Congress were to authorize "some type of control over this bottom 20% of each country's exports to the United States" I should suppose that the generality—if, indeed, not all—of the members of this Association would be benefited. Nevertheless, we cannot ask the Congress to take any such steps because this would be inconsistent with our conviction that consumers who wish to buy low quality—low priced wines should be privileged to do so, and because we oppose as a matter of principle and not on the basis of expediency any further governmental interference with open channels of trade or with the status of this industry as a free enterprise.

Then again, what explanation could be given consumers of the denial to them of the opportunity to buy wines in the "bottom 20%" of the low quality-low priced imported wines at the same time that no such restrictions are imposed upon the market availability of the "bottom 20%"—or any per cent—of the low quality-low priced California wines?

This Association stands for free and open trade for imports and free and open trade for exports. We oppose any quota system on either side of any ocean, as it tends to restrict artificially the consumer choice, as well as the obvious free flow of commerce.

8. WINE INSTITUTE MEMBERS ENJOY GOOD ECONOMIC HEALTH

We were delighted to read in the Texas Beverage News of July 1, 1968, an article datelined at San Francisco and captioned "California Wine Sales at Peak", which quoted the Wine Institute as reporting that "a record total of 41,436,614 gallons of California wine entered the U.S. consumer market in the first quarter of 1968." The article went on to say that this was the "largest shipment of California wines in history and an 11.4% gain over last year's first-quarter total;" also, that "dessert, table and sparkling wines all shared in the gain."

As is true of domestic whiskies, domestic wines are making great progress in the American market a note of optimism on which we conclude our commentaries on wines and spirits.

9. MALT BEVERAGE IMPORTS ARE MINIMAL

The impact on the U.S. market by imported malt beverages is minimal in terms of both volume and percent. It is hardly necessary, therefore, to offer any detailed commentaries here. Suffice it to say that the total imports of malt beverages in 1967 were 20.5 million gallons, a decrease of 2% from the 1966 total. Imports' share of the market, 0.007, posed no competitive problem for domestic products. Clearly, malt beverages, both domestic and imported, have generally failed to show the growth pattern of wines and spirits.

* * * * *

We are most grateful for the opportunity to put our views before your honorable Committee. Having done so, we commend you for your interest in the subjects of this statement and we pledge to you our cooperation in any further studies you may conduct in matters on which we may be considered capable of speaking with competence.

EXHIBIT A

ESTIMATED DISTILLED SPIRITS ENTERING TRADE CHANNELS

[Calendar years—In wine gallons]

Class and type	1962		1967	
	Net total	Percent to total	Net total	Percent to total
Domestic whisky:				
Bonded	8,542,239	3.3	7,326,718	2.2
Straight	63,934,266	24.6	75,741,946	22.4
Straight blends	802,150	.3	1,368,440	.4
Spirit blends	73,177,964	28.1	76,356,659	22.5
Not elsewhere specified				
Total	146,456,619	56.3	160,793,763	47.5
Imported whisky:				
Scotch	[2] 24,223,572	9.3	[1] 39,581,437	11.7
Canadian	[2] 14,148,924	5.4	[3] 23,297,495	6.9
Irish	[2] 86,850	.1	[3] 85,906	
Belgian	[2] 290,970	.1	[3] 92,438	
Other	12		9,384	
Total	[2] 38,750,328	14.9	[3] 63,066,660	18.6
Gin:				
Domestic	24,811,003	9.6	32,991,964	9.9
Imported	1,611,791	.6	3,035,847	.7
Total	26,422,794	10.2	36,027,811	10.6
Vodka total	22,981,364	8.8	38,561,853	11.4
Rum:				
Puerto Rican	4,125,490	1.6	6,174,429	1.8
Virgin Islands	119,604		198,720	.1
Other Domestic	1,039,080	.4	1,982,313	.6
Total Domestic	5,284,174	2.0	8,355,462	2.5
Imported	186,811	.1	138,165	
Total	5,470,985	2.1	8,493,627	2.5
Brandy:				
Domestic	6,225,915	2.4	10,053,252	3.0
Imported	1,219,438	.5	1,401,962	.4
Total	7,445,353	2.9	11,455,214	3.4
Cordials and specialties:				
Domestic	11,062,495	4.2	17,039,664	5.0
Imported	998,353	.4	1,763,067	.5
Total	12,060,848	4.6	18,802,731	5.5
Not elsewhere specified	564,892	.2	1,532,538	.5
Total domestic distilled spirits	217,084,722	83.4	268,528,795	79.3
Total imported distilled spirits	43,068,461	16.6	70,205,402	20.7
Grand total	260,153,183	100.0	338,734,197	100.0

[1] Includes Irish whisky from Northern Ireland.
[2] Bulk imports bottled domestically converted at 86 proof.
[3] Bulk imports bottled domestically converted at 82 proof.

Source: Distilled Spirits Institute.

[From the Bourbon Newsletter, April 1968]

Rx for Longevity

The Chicago Tribune recently outlined the use to which modern medicine is putting beverage alcohols, such as Bourbon. In particular the article cited how doctors have prescribed regular, moderate amounts of spirits for the treatment of the elderly.

Among those quoted was Dr. Chauncey D. Leake, a professor at the University of California School of Medicine at San Francisco. Dr. Leake, past president of the American Association for the Advancement of Science, has collaborated with Dr. Milton Silverman to write a textbook for physicians, "Alcoholic Beverages in Clinical Medicine."

Dr. Leake was quoted as saying that American doctors increasingly are prescribing alcoholic beverages for their patients to control a wide range of health problems.

Alcohol, said Dr. Leake, relieves the tensions of anxiety and actually is the most common of tranquilizers.

Among the disorders for which spirits such as Bourbon are prescribed, the article stated, were insomnia, cardiac discomfort, angina, circulatory problems, digestive ailments, hypertension, arthritis, and the problems of the aged.

"Perhaps no task is more challenging to the skill, patience, and ingenuity of the modern physician than attempting to handle the complicated and interrelated physiological and emotional problems of old age," Dr. Leake said. "Of all the clinical application of spirits, none is more widely employed, greatly appreciated, and generally beneficial than their use in alleviating these tensions in older men and women."

EXPORTS RISE 16 PERCENT—WEST GERMANY LEADS

Exports of Bourbon whiskey in 1967 rose 16% over the previous year to a new high of 1,683,000 gallons. In the European market, the principal buyer of bottled Bourbon continued to be Western Germany by almost 3 to 1. A total of 156,935 proof gallons were exported to West Germany last year. This was a 52% rise over sales in 1966.

France imported 57,186 proof gallons of Bourbon to move into second place in the European market for Bourbon. This was a 32% rise over the previous year's orders. Close behind were United Kingdom (49,965 gals.), Belgium (48,878 gals.), and Italy (47,190 gals.). In sales growth, Italy led all other countries with a 67% rise over the year before.

Exports of Bourbon to Canada topped all other markets but it was mostly in bulk for use in blending with Canadian whiskey.

BOURBON ENJOYED GREATEST YEAR IN '67—SALES AND PRODUCTION REACH NEW HEIGHTS

Both sales and production of Bourbon, the most popular distilled spirit in the United States, rose to unprecedented heights in 1967, according to all the final figures tabulated by The Bourbon Institute. During 1967, the American consumer bought 85,418,916 wine gallons of Bourbon, an increase of 3,577,441 gallons over the previous year.

Production of Bourbon, that is Bourbon which has been set in barrels to age for four years or more and will not be sold until at least 1972, totalled 132,986,610 proof gallons during the past year. This was 85.3% of all the whiskey of all types produced in the United States and more Bourbon than has been produced in any fiscal year in the past decade. While some will be used for blending purposes, most will be bottled as Bourbon when it reaches maturity.

Although spirit blends continued in second place in sales, Bourbon increased its margin of lead to over 10 million gallons when blends fell behind their sales of the previous year. Sales of imports trailed far behind with Bourbon outselling Scotch by more than two to one and Canadian by almost four to one.

DISTILLED SPIRITS SALES LEADERS

[Wine gallons]

	1967	1966
Bourbon	85,418,916	81,878,267
Blends	75,376,253	76,756,796

Admiral William J. Marshall, President of The Bourbon Institute, commenting on the great year for Bourbon, said, "Although the new sales records set in 1967 are extremely gratifying, the new production figures are a tangible reflection of the optimistic outlook for the future held by the members of this industry. Ever since Bourbon moved into first place in popularity a few years ago, it has been increasing its sales at a steady pace. It is interesting to point out here that the broad appeal of Bourbon, which has been responsible for its overall growth, is also apparent in examining sales in the various price ranges. No one price classification is responsible for the general sales picture. Although the higher priced premium brands lead the field in total gains, the more economically priced brands have also risen to new heights in sales.

"At a time when advertising and promotion of all spirits have increased, America's traditional spirit, Bourbon, has not only held its leadership but has risen more than three and a half million gallons. It is particularly encouraging to note that in the traditional spirit blend states of the Northeast, Bourbon has continued to gain."

Admiral Marshall predicted that 1968 would also be a favorable year for Bourbon sales. Trade inventories are generally high and all signs point to increased Bourbon advertising budgets for the year ahead.

STATEMENT OF ALLAN A. RUBIN, VICE PRESIDENT AND COUNSEL AND JOHN T. LATELLA, ASSOCIATE COUNSEL OF THE UNITED STATES BREWERS ASSOCIATION

The United States Brewers Association, 535 Fifth Avenue, New York City, is the oldest incorporated trade association in the United States. Its members produce in excess of 85% of all malt beverages manufactured in the United States and almost 100% of the malt beverages exported from the United States.

I. INTRODUCTION

The importance of the brewing industry to the welfare of the United States is evidenced most simply and directly by reference to the fact that it currently pays in excise taxes alone almost one billion dollars ($1,000,000,000) annually to the United States Government. Moreover, it pays a total of over four hundred million dollars ($400,000,000) annually to the various state governments in malt beverage excise taxes. Nor do these figures include the additional vast sums paid to the Federal and State Governments in income taxes, in real estate and personal property taxes, and in other comparable impositions, such as license fees, etc.

And the foregoing statistics—limited as they are to the payment of taxes to the Federal and State Governments—do not reveal the even more substantial impact of the United States brewing industry on the *economy* of the United States, as indicated by the industry's purchases of domestic farm produce (barley, hops, rice, corn, etc.); of containers and packaging materials (cans, bottles, barrels, cases, paper, labels, closures, etc.); of machinery trucks, automobiles, and transportation facilities; of fuel, heat, light, power, and water; and as disclosed by its tremendous expenditures for payroll and for advertising and promotion. A rough assessment of the significance of the brewing industry to our domestic economy is revealed in the following itemization of economic data relating to the operations of the domestic brewing industry of the United States:

A. Employment

The United States brewing industry employs a total of over 60,000 persons paying wages and salaries, exclusive of fringe benefits, totaling approximately five hundred and twenty million dollars ($520,000,000) annually. Additionally—including it's impact on its supplies and distribution system—the industry annually provides an income of two and one half billion dollars ($2,500,000,000) for more than one million persons.

B. Taxes

The United States Brewing industry paid almost one billion dollars ($1,000,-000,000) in Federal excise taxes and over four hundred million in States excise taxes in 1967. It is the fifth largest industry in payment of Federal excise taxes. Since repeal, brewers have paid over 20.4 billion dollars in excise taxes to the Federal Government and over 6.8 billion dollars in excise taxes to the various state governments.

C. Agriculture

The United States brewing industry purchases two hundred and thirty million dollars ($230,000,000) worth of U.S. agricultural products yearly, using five billion pounds (145 million bushels) of grain annually in the production of malt beverages. In 1967, United States brewers purchased about 133 million dollars worth of malt barley, 77 million dollars of corn and rice, 15 million dollars of hops and 5 million dollars of other agricultural products.

D. Containers

Approximately 20% of all cans manufactured in the United States are for beer cans, the United States brewing industry using 13.8 billion aluminum and tin coated steel cans per annum. Additionally, the United States brewing industry consumes approximately 6.4 billion returnable and one-way glass bottles; and sustains an annual packaging bill of almost 675 million dollars.

E. Miscellaneous purchases

The brewing industry expends 22.5 million dollars annually on fuel, power and water; 215 million dollars on transportation; one hundred million dollars on capital expenditures; and 250 million dollars on advertising and promotion.

F. Exports and imports

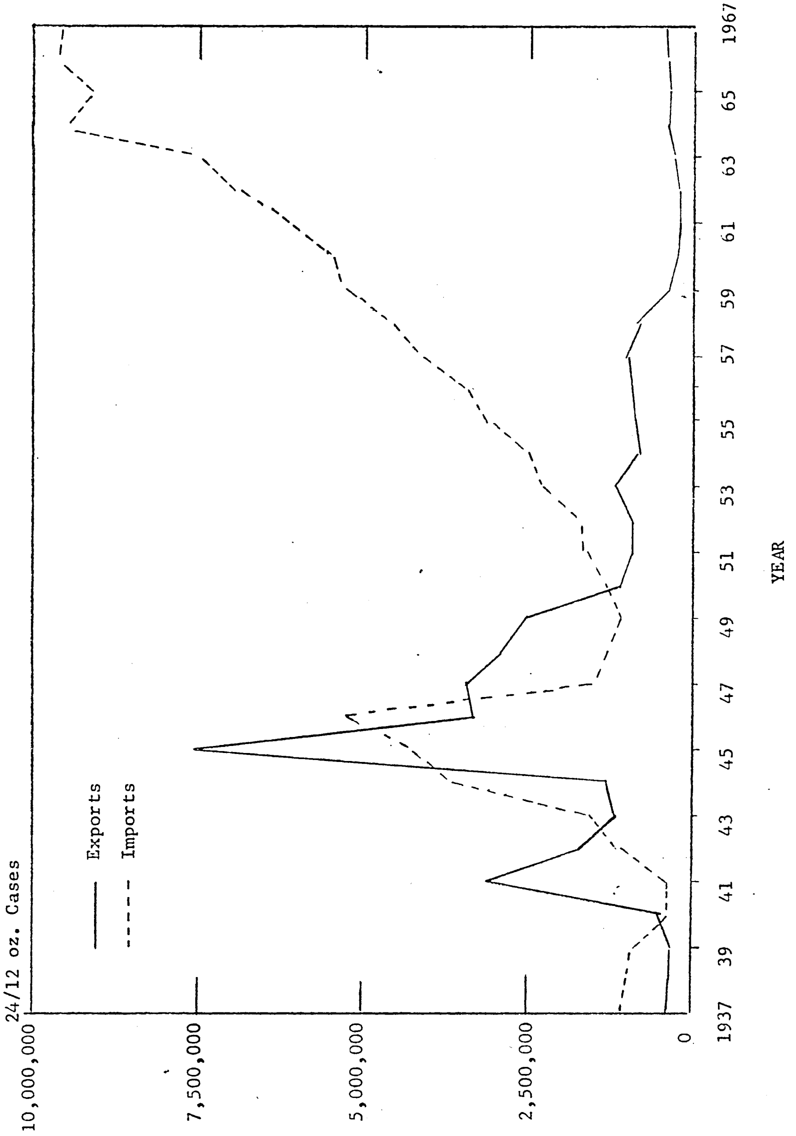
The United States brewing industry in 1967 produced 116,500,000 barrels and exported less than 32 thousand barrels of beer, having a valuation of only slightly more than one million ($1,000,000.00) dollars. As against this unbelievably low export figure, the United States imported in 1966 almost 691 thousand barrels of beer having a valuation of just under 24 million dollars ($24,000,000.00). Accordingly, the United States imports almost 22 barrels of beer for each barrel it exports.

But an even more important contribution could be made by the domestic brewing industry to the economic welfare of the United States, as well as in helping to alleviate the Gold Flow problems of the United States, *IF* foreign duties and foreign non-tariff trade barriers were either placed in basic parity with United States import duties and barriers or were otherwise reduced so as to be reasonable in amount and in type of restriction. United States brewers who have been interested in exporting malt beverages from the United States to various foreign countries have abandoned their efforts upon discovering that either the foreign duty or the foreign non-tariff trade barriers—and oftimes both—effectively prohibit the movement of United States beer into those countries.

A cursory analysis of the volume of beer exports and imports from 1937 through 1967 and the relationship between the volume of exports and imports is most revealing. The trend of beer exports from the United States has been declining consistently since World War II years while, in contrast, beer imports into the United States have sustained a remarkably consistent up-trend.

The following chart is indicative of the effect of the lenient "open-door" policy of the United States Government and of the contrary protectionist policies of most of the foreign countries to which the United States brewing industry would otherwise be enabled to export its product, and illustrates the trends and the volume of both beer imports and beer exports since 1937.

UNITED STATES EXPORTS AND IMPORTS OF MALT BEVERAGES, 1937 - 1967



The chart on the following page demonstrates the failure of the United States delegation in Geneva to obtain tariff concessions on malt beverages in any way commensurate with even the existing United States rates, and much less with the rate concession granted by this country. While the chart lists only a few countries, the "No Concession" response was typical of the great majority of the GATT negotiators, and instances of concessions were the rare exceptions to the general rule.

Country	Basic duty before Kennedy Round	Duty after Kennedy Round
Australia	$1.37 per imperial gallon	No concession.
Canada	53 cents per imperial gallon (including 38 cents per gallon excise tax).	15 cents per imperial gallon (excluding 38 cents per gallon excise tax) effectively, no concession.
Dominican Republic	80 cents per gallon plus import tax of $2,80 per gallon plus additional tax of 50 percent of f.o.b. value plus custom surcharge of 3 percent of import duties and taxes.	No concession.
Germany	26 percent ad valorem plus 10 percent import equalization tax.	On July 1, 1968, the German rate will move to the European Economic Community external rate of 30 percent to which will be applied the first Kennedy round cut so that the rate will then be lowered over a 5-year period to 24 percent by Jan. 1, 1972.
Haiti	72 cents per gallon	No concession.
Hong Kong	32 cents per gallon, plus 0.05 percent ad valorem.	Do.
Japan	35 percent ad valorem on c.i.f. value	Reduced to 20 percent.
Netherland Antilles	$2.51 per gallon	No concession.
United Kingdom	58 cents per gallon	Do.

Many excuses have been advanced by the proponents of high foreign malt beverage tariffs and foreign protectionist policies in support of the alleged necessity of these tariffs and policies for the particular country or countries involved. It is interesting to note, however, that each of these arguments could be as readily advanced in support of the adoption of similar positions by the United States Government concerning the importation of foreign malt beverages into the United States.

For example, some of the foreign countries which impose unrealistically high duties or other impediments in the way of the importation of United States beer have argued the local foreign breweries can more than supply the country's demands. Were this argument valid, it could be as readily applied to the capacity of the United States to supply the demands of its inhabitants.

Next, and perhaps intertwined with the foregoing, is the contention that the local foreign brewing industry needs protection. A quick glance at the rate of attrition sustained by United States breweries over the past several decades substantiates the fact that a significant percentage of the individually owned, local breweries of the United States have been, and still are, in need of the same type of protection.

It has also been contended by some foreign countries that the taste of United States brew is not acceptable to individuals in the foreign country. If this were the case, the foreign country would have no need for restrictive tariff and non-tariff barriers, but competition and consumer taste preferences would effectively inhibit the importation of the United States product. The same argument could be advanced by the United States interests in view of the vast disproportion between the consumption of United States brews and imported brews. The only way to determine the desires of the consumer is to afford him an opportunity to consume—as the United States Government has done for the foreign product.

There is little doubt that all of these more common reasons advanced for preventing United States beer imports are makeshift rationalizations and have little, if any, validity; and that to the extent that validity exists, the arguments could be advanced as readily to support protectionist policies by the United States.

The inability of the United States brewing industry to export its product to foreign countries is the result of three factors, each of which is significant, and the cumulative effect of all three of which is inhibitive—and in many cases prohibitive—of exportation by domestic United States brewers.

These factors are, of course, (1) foreign duties, (2) foreign non-tariff restraints and barriers, and (3) inequitable and discriminatory transportation and shipping rates. Because it is beyond the limited scope of this inquiry, the latter factor will not be stressed but is mentioned merely in passing. That factor does, however, gain additional importance because the effect of higher discriminatory shipping rates imposed upon United States brewers is a burden which, when added to the higher foreign duties and the difficulties in surmounting foreign non-tariff restrictions, effectively precludes the exportation of malt beverages from the United States to the countries involved. Accordingly, it is the position of the United States Brewers Association, Inc., that the transportation and shipping rates should be the subject matter of future thorough investigation by the appropriate agencies of the United States Government.

A country-by-country comparison disclosing the individual disparity in beer imports and beer exports between the United States and each of a number of other countries is most pertinent to our consideration. In this regard, we should be mindful of the fact that each of these countries could—in the absence of unreasonable duties and other barriers—fall in the "good customer" category for United States produced malt beverages.

The country-by-country statistics for 1966—which are the most current presently available—show that:

Canada.—Exported 1,855,789 cases of beer to the United States while importing only 17,068 cases from the United States;

Mexico.—Exported 225,431 cases of beer to the United States, while importing only 875 cases from the United States;

United Kingdom.—Exported 261,240 cases of beer to the United States while importing nothing from the United States;

Eire.—Exported 165,286 cases of beer to the United States and imported none;

Denmark.—Exported 600,940 cases of beer to the United States and imported nothing;

Netherlands.—Exported 1,899,114 cases of beer to the United States and imported nothing from the United States;

Germany.—Exported 3,516,527 cases of beer to the United States and importing nothing from the United States;

Norway.—Exported 542,267 cases of beer to the United States and importing nothing from the United States;

Japan.—Exported 144,365 cases of beer to the United States and importing only 382 cases from the United States;

Philippine Islands.—Exported 265,439 cases to the United States while importing only 704 cases from the United States;

Central America.—Exported only 1,162 cases of beer to the United States while importing 48,172 cases from the United States;

Caribbean area.—Similarly exported only 1,300 cases of beer to the United States while importing 174,090 from the United States.

II. AMERICAN DECLINE IN INTERNATIONAL BEER TRADE

As previously noted, the competitive position of the American brewing industry in the export-import market has undergone, and continues to experience, a progressive deterioration dating back to two decades, shortly after the close of World War II. The chart on page 6 depicts graphically, on a worldwide basis, the decline in our export trade and the concurrent increase in the entry of foreign products into the American marketplace.

Disquieting as that chart may be, the serious problem which it illustrates stands out even more starkly when viewed in terms of precise figures and not simply as lines on a chart. Insofar as worldwide statistics are concerned, Exhibit A sets forth, year by year, the figures reflecting United States exports and imports of malt beverages.

The chart on page 6 and Exhibit A demonstrate the total structure of our export and import trade in malt beverages, in the form of a general overview. It is both pertinent and helpful to dissect the total structure into its principal component parts. This is done in the attached Exhibits B and C (for Europe), D and E (for North America), F and G (for Asia), and H and I (for all other areas). As for the total worldwide picture, these exhibits depict graphically and tabulate numerically for each geographical area the declining stature of the

United States brewing industry in the international malt beverage marketplace.

In the European area, the principal exporting countries to the United States, in order of relative standing, are Germany, Netherlands, Denmark, Norway, United Kingdom, and Eire. Our exports to those countries and, for that matter, to the rest of Europe have been insignificant since 1945.

The North American area, chiefly Canada but also including Mexico to a significant degree, presents an equally bleak picture in terms of the dismally low level of exports of American beer to those countries. While the total imports from Canada and Mexico are less than the total imported from the several European countries, it should be noted that the overwhelming bulk of imports from the North American area is of Canadian production (e.g. 1,855,789 out of the total of 2,081,220 in 1966), and that Canada and the Netherlands have been running nip-and-tuck for the distinction of holding the second-place position, behind Germany, in the American import market.

Against the backdrop of the European and North American tableaus, the Asian area presents a picture which appears—at least at first blush—to depict a comparatively milder cause for concern. This is, however, far from fact. To the contrary, the situation in Asia is no less unhappy than in either of the areas previously cited. The Asian area includes not only the Asian continent, for purposes of this study, but covers also all of the Middle East and the several Pacific island areas. Our exports to Asia have been chiefly to Hong Kong, India/Pakistan/Ceylon, and Syria/Lebanon, with small shipments to other countries in the area. Our imports, however, come almost entirely from the Philippines and Japan, in that order, and we export practically nothing to those countries. For example, we imported 265,439 cases from the Philippines in 1966 and, in return, exported 704 cases to that country. Similarly, we imported 144,365 cases from Japan in 1966 and exported 382 cases to that country in return.

It is only with respect to all other geographical areas that the United States has been able to maintain a favorable balance of trade in malt beverages, as shown in Exhibits H and I. Here too, however, we see a significant leveling off of export sales at a rate far below that which was enjoyed in the years up to and including 1949.

Certainly, it is beyond dispute that the unfortunate situation described in the preceding discussion and portrayed in the cited charts and tables is of serious concern not only to the American brewing industry but to the American economy and welfare as a whole, particularly in the context of our International Balance of Payments program, and of our national programs aimed at full employment of our available labor force, including especially the so-called hard-core unemployed. The American brewing industry can contribute to the growth of our national economy and to increased employment only to the extent that it is itself enabled to grow. When export markets are effectively closed to us and competing foreign products, originating in countries with much lower operating and production costs, are permitted completely free access to the domestic consumer market, the opportunity for growth of domestic industry is effectively denied. The need to find and execute suitable corrective measures is self-evident, imperative, and urgent.

III. TARIFF BARRIERS TO AMERICAN MALT BEVERAGE EXPORT TRADE

The general discussion in Section I of this Brief has already defined the nature, scope, and impact on American exports of the import tariff structures of the countries whose domestic markets are thereby effectively closed to the American brewing industry. For the purposes of this Brief, only passing mention need be made of the outright prohibitions against beer imports by such countries as Chile, Colombia, Ecuador, and Turkey. Beer imports are currently prohibited by Turkey through the vehicle of its present policy, covering the period January through June 1968, prohibiting the issuance of beer import licenses. Even after this license "moratorium" expires, the continuing Turkish tariff impositions are such as effectively to foreclose American beer exports to that country:—the basic Duty is 100% Ad Valorem (c.i.f. value), and to this are added a Customs Surtax of 15% of the basic Duty, a Stamp Tax of 10% of the c.i.f. value, a Customs Clearance Charge that varies with the size and value of each shipment, a Port Tax of 5% of the aggregate of all the foregoing charges, and a Production Tax at the rate of 40 Kurus per liter or, in its American equivalent, 3.7¢ per gallon.

In an earlier portion of this Brief, there is set forth a comparative listing of GATT concessions on malt beverage imports by the United States, on the one hand, and concessions—or the denial thereof—by certain other GATT countries. In order to furnish a better perspective of the chasm that separates our domestic tariff structure on imported malt beverages from those of a representative number of other countries in the area of malt beverages, there are attached two tabulations, Exhibits J and K, which reflect the wide disparities between American duties on beer imports and those imposed, respectively, by countries using the American system of duties based upon capacity and by countries whose duties are computed upon other bases, such as *ad valorem*, weight, compound weight-and-value, and the like. The well-nigh insurmountable tariff barriers impeding American exports to the listed countries and regional areas require no further elaboration in this statement.

IV. NONTARIFF BARRIERS TO AMERICAN MALT BEVERAGE EXPORT TRADE

The nature and scope of the myriad types of nontariff barriers limiting, if not completely precluding, American exports of malt beverages have already been alluded to in Section I of this Brief. These restrictions are well known to the responsible agencies and officials of our Government and require no lengthy recitation in this statement.

In the area of discriminatory ocean freight rates, our Federal Maritime Commission has accumulated a vast storehouse of data demonstrating the "underdog" position of the American economy in the outbound-inbound rate structures of the several steamship conferences. While it is acknowledged that differences in local labor rates and other port handling costs will necessarily result in variances between outbound and inbound freight costs, those differences fall far short of justifying the ridiculous disparity as between inbound rates, on the one hand, and outbound rates, on the other. The Federal Maritime Commission has been able to establish by documented, incontrovertible evidence, for example, that outbound rates for American beer consigned to various foreign countries are substantially higher—sometimes in the ratio of two-to-one than inbound rates for beer imported from those same countries to the United States.

Evidence establishing these disparities in the country-to-country, or "reciprocal", trade has been developed with no great difficulty. Similar evidence has, for the most part, been unavailable with respect to the "third country" or "foreign-to-foreign" trade. Nevertheless, all available indicators point to a similar discrimination against outbound movements of American malt beverages.

In lieu of an extended recital of the ocean freight problem in this Brief, the Trade Information Committee is respectfully referred to such available reference sources as the August 16, 1967 Report of the Investigative Officer, Federal Maritime Commission, in Fact Finding Investigation No. 6, entitled "The Effects of Steamship Conference Organization, Procedure, Rules, Regulations and Practices Upon the Foreign Commerce of the United States." All that need be noted here is the fact that discriminatory ocean freight rates superimposed upon discriminatory import tariff rates have unquestionably been largely responsible for the substantial, and progressively worsening, decline of the American malt beverage industry in the export-import trade.

But discriminatory ocean freight rates are far from the only nontariff impediments contributing to the adverse posture of American malt beverage exports when measured against American imports of foreign-origin malt beverage products—or, in fact, when measured against any other objective standard. Many of the other forms of nontariff barriers to American beer exports have been cited in prior portions of this Brief. It is nevertheless appropriate to mention once again some of the more noteworthy—"notorious" perhaps be the more apt term—restrictions in various areas against American beer exports.

A prime example of such discriminatory nontariff barriers is found in our neighbor to the north, Canada, whose Federal law grants to each of the Canadian Provinces an absolute, unqualified monopoly in the production, importation, distribution, and sale of malt beverages, pretty much as the 21st Amendment to our American Constitution has done for the several States in this country. Any similarity between Canada and the United States ends at this point, however, since the several Provinces of Canada have for the most part effectively excluded American beer from their markets either through the vehicle of prohibitive license fees and restrictions, Provincial tax systems, or outright denials, whereas not a single State of the Union has erected any similar barriers to the importation and sale of beer, whether of American or foreign production.

The Province of Ontario, for instance, imposes upon the *brewer* a license fee of $100.00 per year for each retail outlet selling that brewer's products, thereby rendering it economically and practically impossible for any American brewer to introduce his product in that Province, particularly in view of the Canadian law prohibiting any and all brand advertising of alcoholic beverages. Additionally, in the relatively recent past, the Liquor Commissions in two other Provinces, British Columbia and Quebec, arbitrarily and categorically denied requests from interested American brewers for Provincial import licenses. In fact, the British Columbia Liquor Commission went so far as to refuge to honor the request of an American brewer for a copy of the Provincial laws and regulations governing shipments into the Province, adding the comment that "we are not interested in your product." The Quebec authorities employed a slightly less antagonistic tone in their reply, but they nonetheless made it clear that the local brewing industry had the capacity to produce all the beer needed within the Province, and that, accordingly, the requested import license was denied.

Our neighbor to the south, Mexico, has adopted import license restrictions similar to those applied in Quebec. Import licenses are generally granted only after a determination that the type of merchandise concerned is not available out of local Mexican production. The efficiency with which this restriction has been administered by the Mexican authorities is demonstrated by the fact that, in 1966, we imported some 100,109 gallons of beer from Mexico as against a total of 389 gallons of American beer that managed to squeeze themselves into the Mexican market.

Among other foreign nontariff barriers that have kept American malt beverage exports at unacceptably low level during the past several years have been such restrictions as: excessive internal border taxes on imports imposed within common market areas such as the European Economic Community which discriminate against non-EEC products; the "tied-house" systems of retail distribution in countries such as Germany and the United Kingdom, which effectively preclude outside competition from any source; and various admitted or "under-the-table" tax rebates, drawbacks, and other subsidies granted by foreign governments to encourage the export trade of their local industries.

V. CONCLUSION AND RECOMMENDATIONS

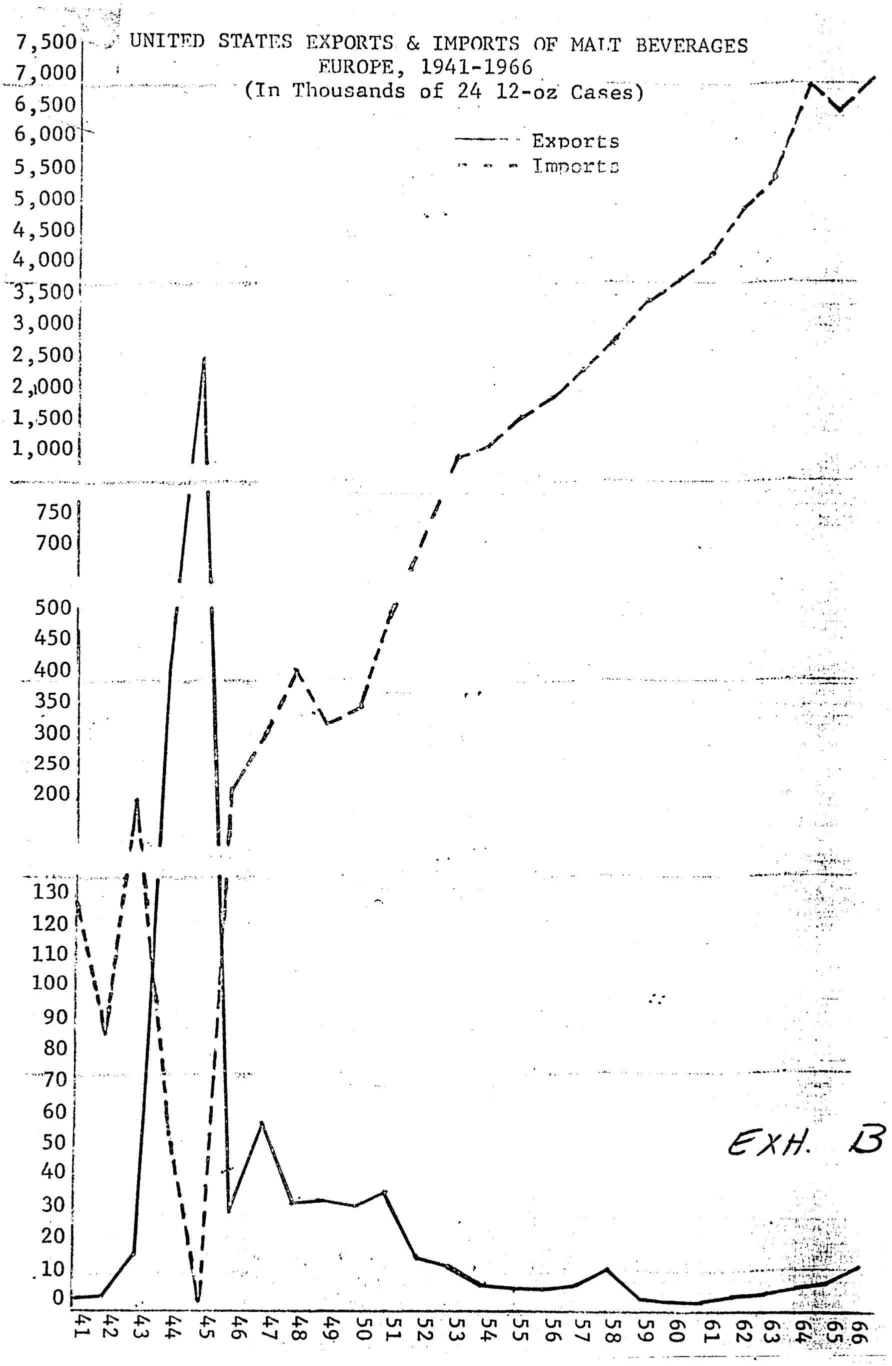
In summary, it is abundantly clear that the cumulative effect of the tariff and nontariff barriers cited in the preceding discussion has been to reduce America's malt beverage export trade to a mere trickle. In light of the substantial role of the American brewing industry in the economic structure of the United States, it necessarily follows that the adverse impact of those barriers upon the export trade of this industry not only prejudices the foreign commerce of the United States but also adversely affects its gold flow problems and its internal economic welfare. There is obviously no quick and easy panacea that can eliminate overnight the tremendous imbalance in the malt beverage segment of the foreign commerce of the United States. It is no less obvious, however, that some remedial measures must be initiated—and *now*—to remove those discriminatory obstacles to our export trade which are within our present reach.

The overriding concern of the responsible agencies and officials of this country should be to bring about a substantial measure of parity or reciprocity with each of the nations with whom we trade. Insofar as import tariff schedules are concerned, for example, we should negotiate not only the elimination of prohibitive foreign duties but for a common basis of tariff computation, thus eliminating the diversity of systems that presently exist, such as duties computed on the basis of volume or capacity, those computed on weight, those computed on an Ad Valorem basis, and those computed on some combination of these factors.

Another area which, because of its cumulative effect upon our export trade in conjunction with other trade barriers, should receive immediate attention and action is that of discriminatory ocean freight rates, along the lines indicated in the Federal Maritime Commission investigation report previously cited.

UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
WORLDWIDE TOTALS, 1941-1966
(In Cases of 24 12-oz. Packages - One Case Equals 2-1/4 Gallons)

	Exports	Imports
1938	329,470	940,920
1939	314,912	880,511
1940	529,391	488,642
1941	3,062,085	427,000
1942	1,724,318	1,054,000
1943	1,155,300	1,624,400
1944	1,347,805	3,570,800
1945	7,514,563	4,175,040
1946	3,286,887	5,308,736
1947	3,381,609	1,497,605
1948	2,908,547	1,295,386
1949	2,457,020	1,085,325
1950	1,144,019	1,275,376
1951	908,410	1,585,489
1952	936,495	1,693,306
1953	1,244,905	2,257,151
1954	871,509	2,526,226
1955	930,741	3,132,550
1956	963,090	3,428,476
1957	1,033,480	4,097,422
1958	883,297	4,585,922
1959	432,121	5,291,221
1960	293,309	5,530,438
1961	282,525	6,132,559
1962	291,380	6,926,482
1963	315,069	7,546,684
1964	405,739	9,519,537
1965	379,110	9,114,302
1966	442,291	9,611,699


UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
EUROPE, 1941-1966
(In Thousands of 24 12-oz Cases)
Exports
Imports
7,500
7,000
6,500
6,000
5,500
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
750
700
500
450
400
350
300
250
200
130
120
110
100
90
80
70
60
50
40
30
20
10
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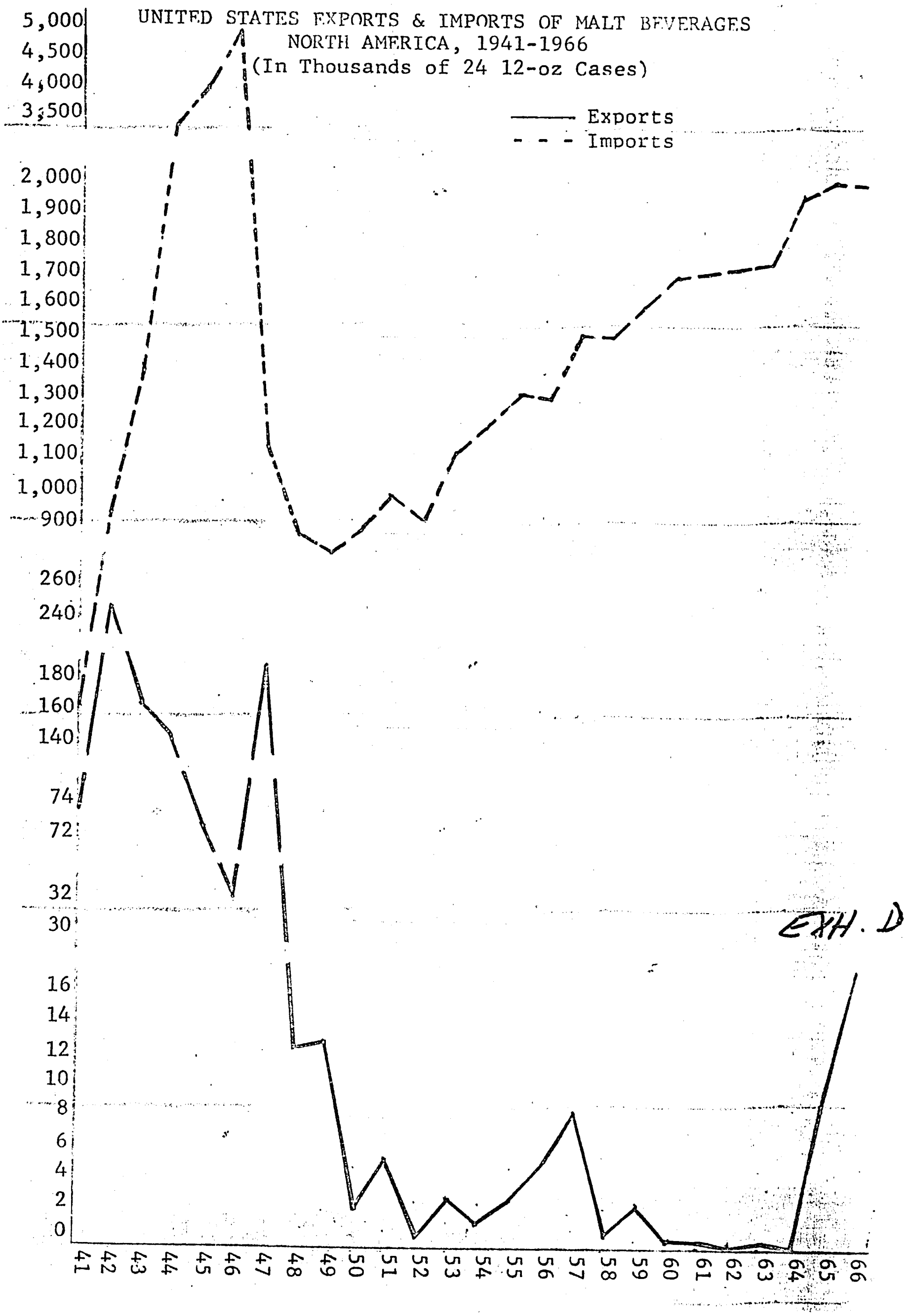
41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66
EXH. B

UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
EUROPE, 1941-1966
(In Cases of 24 12-oz. Packages - One Case Equals 2-1/4 Gallons)

	Exports	Imports
1941	2,257	128,303
1942	3,108	87,011
1943	17,052	201,643
1944	420,523	61,229
1945	2,511,303	3,040
1946	32,745	222,171
1947	59,786	316,588
1948	34,408	417,047
1949	35,840	335,879
1950	33,208	363,646
1951	37,996	518,443
1952	18,466	726,443
1953	15,540	1,059,248
1954	9,076	1,219,616
1955	8,488	1,724,317
1956	8,764	2,036,642
1957	9,352	2,497,200
1958	13,813	2,904,257
1959	5,100	3,548,572
1960	2,689	3,700,781
1961	1,900	4,256,257
1962	2,289	5,001,605
1963	4,288	5,513,944
1964	6,370	6,950,933
1965	9,933	6,571,847
1966	14,211	7,082,774


UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
NORTH AMERICA, 1941-1966
(In Thousands of 24 12-oz Cases)
Exports
Imports
5,000
4,500
4,000
3,500
2,000
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
260
240
180
160
140
74
72
32
30
16
14
12
10
8
6
4
2
0
41
42
43
44
45
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47
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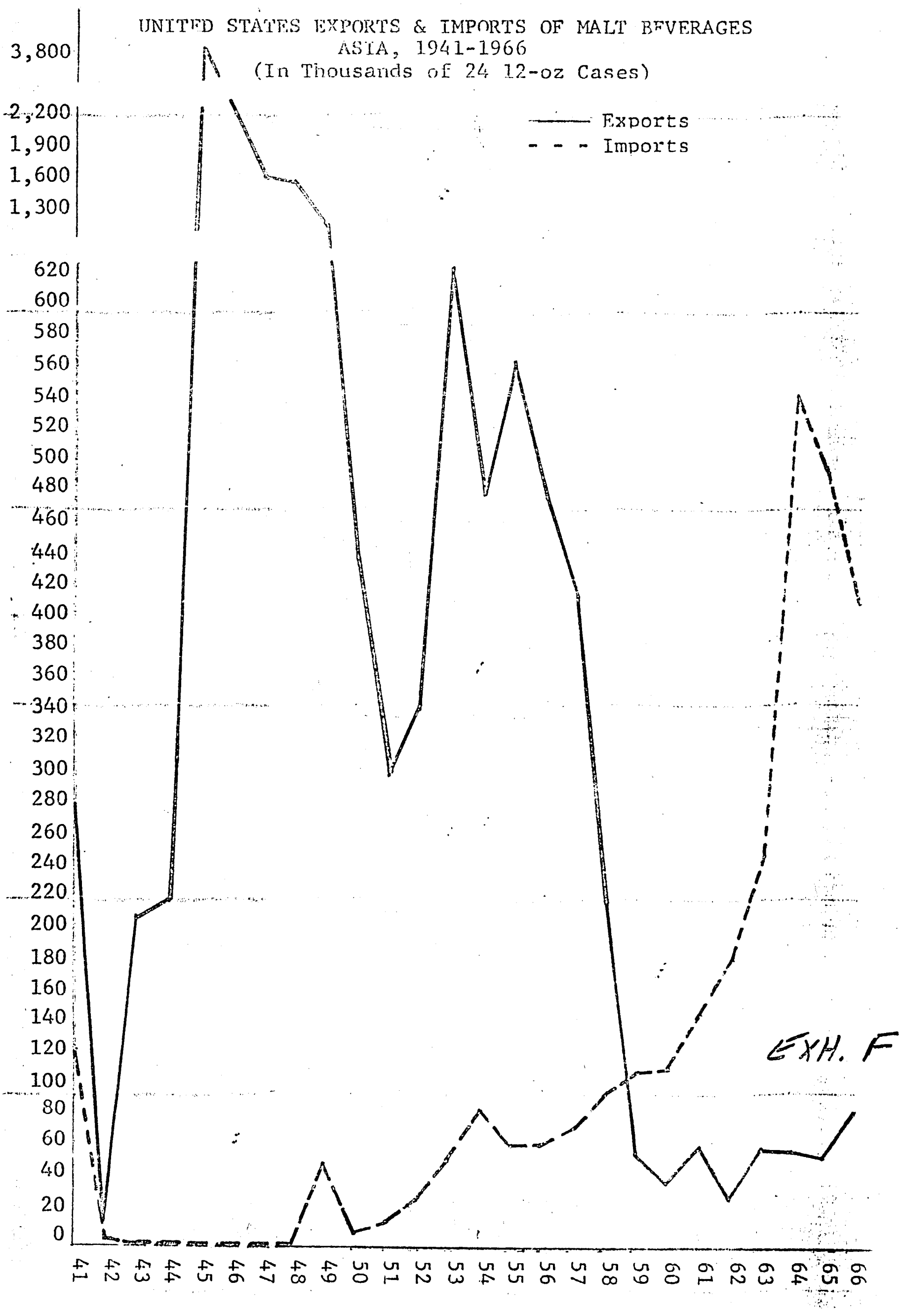
EXH. D

UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
CANADA & MEXICO ET AL, 1941-1966
(In Cases of 24 12-oz. Packages - One Case Equals 2-1/4 Gallons)

	Exports	Imports
1941	74,146	162,140
1942	249,444	960,113
1943	164,609	1,416,304
1944	143,300	3,498,212
1945	73,304	4,171,967
1946	32,602	4,971,419
1947	191,551	1,179,016
1948	12,541	878,339
1949	13,137	697,862
1950	2,100	899,851
1951	5,451	1,050,228
1952	1,024	936,605
1953	2,700	1,149,538
1954	1,500	1,217,795
1955	2,600	1,333,766
1956	5,030	1,319,207
1957	10,528	1,517,956
1958	1,808	1,515,599
1959	2,380	1,625,149
1960	367	1,708,201
1961	107	1,717,921
1962	-	1,733,851
1963	183	1,762,987
1964	-	1,983,602
1965	8,856	2,012,019
1966	17,943	2,081,220


UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
ASIA, 1941-1966
(In Thousands of 24 12-oz Cases)
Exports
Imports
3,800
2,200
1,900
1,600
1,300
620
600
580
560
540
520
500
480
460
440
420
400
380
360
340
320
300
280
260
240
220
200
180
160
140
120
100
80
60
40
20
0
41
42
43
44
45
46
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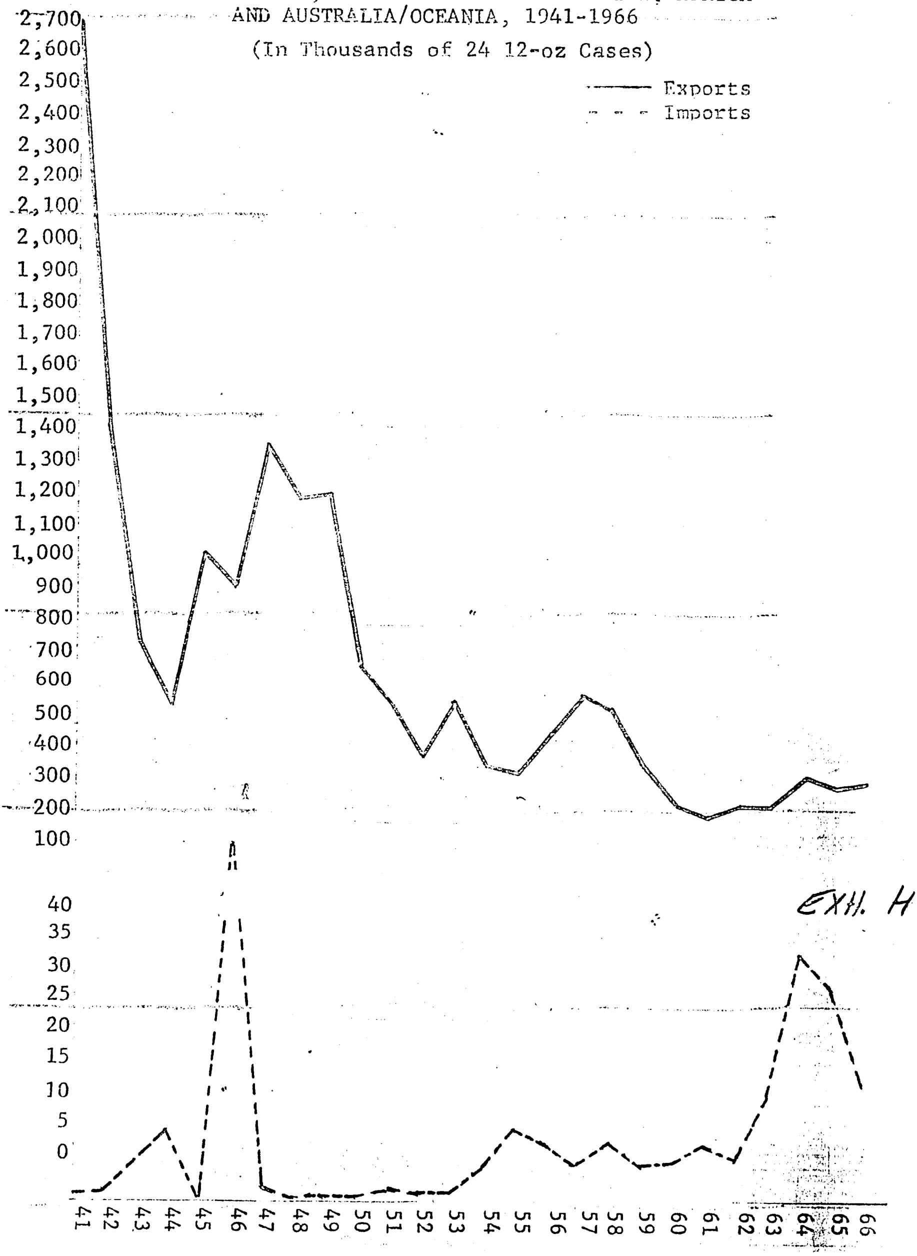
EXH. F

UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
ASIA, 1941-1966
(In Cases of 24 12-oz. Packages - One Case Equals 2-1/4 Gallons)

	Exports	Imports
1941	282,213	125,220
1942	19,700	6,516
1943	212,563	-
1944	221,461	-
1945	3,888,774	-
1946	2,290,162	-
1947	1,738,731	-
1948	1,652,030	-
1949	1,175,619	51,587
1950	444,291	11,879
1951	302,737	15,886
1952	348,416	30,198
1953	628,844	47,966
1954	483,052	84,233
1955	567,794	63,628
1956	481,768	63,788
1957	418,471	75,861
1958	221,392	97,793
1959	60,189	111,888
1960	41,110	116,156
1961	61,791	150,437
1962	34,155	184,347
1963	60,871	253,463
1964	60,826	546,723
1965	59,425	496,699
1966	85,461	414,584

UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
CARIBBEAN AREA, CENTRAL AND SOUTH AMERICA, AFRICA
AND AUSTRALIA/OCEANIA, 1941-1966
(In Thousands of 24 12-oz Cases)



UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES
CARIBBEAN, CENTRAL AMERICA, SOUTH AMERICA,
AFRICA, AND AUSTRALIA/OCEANIA, 1941-1966
(In Cases of 24 12-oz. Packages - One Case Equals 2-1/4 Gallons)

	Exports	Imports
1941	2,703,470	232
1942	1,452,070	456
1943	761,075	6,465
1944	562,610	11,400
1945	1,041,178	32
1946	931,378	115,146
1947	1,391,544	2,001
1948	1,209,568	-
1949	1,234,401	-
1950	664,320	-
1951	562,496	932
1952	400,788	60
1953	563,021	399
1954	377,881	4,582
1955	352,159	10,839
1956	467,528	8,839
1957	595,129	6,405
1958	550,623	8,273
1959	364,452	5,612
1960	249,143	5,300
1961	218,727	7,944
1962	250,497	6,679
1963	249,727	16,290
1964	338,541	38,279
1965	300,895	33,738
1966	315,320	18,582

UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES

COMPARISON OF REPRESENTATIVE IMPORT DUTIES
COMPUTED ON BASIS OF CAPACITY

(Foreign Tariff Rates Have Been Converted to U.S. Dollars and Gallons)

Importing Country	Import Duties & Charges
United States	\$0.125/gal (To be reduced ultimately to \$0.06/gal pursuant to Kennedy Round)
Australia	\$1.14/gal plus Sales Tax of 12½% of Value and Duty, Increased by 1/5th of Total
Bahamas	\$0.47/gal plus Customs Surcharge of 7½% Ad Valorem
Barbados	\$0.65/gal plus 10% Customs Surtax (\$0.065) plus Package Tax of \$0.125/pkg (\$1.29 per gal if in 12-oz units), for total Duties & Charges of \$2.00/gal
Bermuda	\$0.47/gal plus Customs Surcharge of 10% of Duty (\$0.047/gal), for total of \$0.527/gal
Canada	\$0.125/gal plus, if in glass, Bottle Duty of 20% Ad Valorem, plus 12% Sales Tax on Duty-Paid Value
Dominican Republic	\$0.80/gal plus Import Tax of \$2.80/gal, plus additional tax of 50% of FOB value, plus Customs Surcharge of 3% of duties and taxes paid on importation
Haiti	\$0.72/gal plus Excise Tax of \$0.11/gal, for total of \$0.83/gal
Hong Kong	\$0.32/gal plus 0.05% Import Charge on Declared Value (minimum charge of \$0.35 on any one import declaration)
Netherlands Antilles	\$2.51/gal on beer other than Stout, which has more favorable rate of \$1.61/gal
United Kingdom	\$0.58/gal

EXH. J

UNITED STATES EXPORTS & IMPORTS OF MALT BEVERAGES

COMPARISON OF REPRESENTATIVE IMPORT DUTIES
(FOREIGN DUTY COMPUTED ON BASIS OTHER THAN CAPACITY)

(Foreign Tariff Rates Have Been Converted to U.S. Equivalents)

Importing Country	Import Duties & Charges
United States	\$0.125/gal (To be reduced ultimately to \$0.06/gal pursuant to Kennedy Round)
Argentina	Basic Duty of 130% Ad Valorem; plus Ocean Freight Tax of 4% of freight charges; plus Import Sales Tax at 10% of duty-paid value.
Brazil	Basic Duty is 105% Ad Valorem; plus Port Improvement Tax of 1% of c.i.f. value; plus Merchant Marine Tax of 10% of ocean freight cost; plus Industrialized Product Tax of 35% of duty-paid value.
Central America Common Market (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua)	Combined weight-and-value duty: \$0.70/kilo (gross weight including packing) plus 10% Ad Valorem on c.i.f. value. One kilo equals 2.2 pounds.
European Economic Community (Belgium, France, Germany, Italy, Luxembourg, Netherlands)	Common External Tariff (CXT), presently at 30% Ad Valorem, will be reduced to 24% Ad Valorem by January 1, 1972, pursuant to Kennedy Round. Germany, which presently imposes an Import Duty of 26% Ad Valorem plus an Import Equalization Tax of 10%, will move over to the EEC CXT rate.
Japan	Present rate of 35% Ad Valorem on c.i.f. value will be reduced to 20% by January 1, 1972, pursuant to Kennedy Round.
Mexico	Compound weight-and-value duty: \$0.18/kilo (gross weight including packing) plus 100% Ad Valorem (invoice value or Mexican official valuation, whichever is higher); plus Customs Surtax of 3% of Duty.
Philippines	For U.S. beer, official duty of 75% Ad Valorem was lowered to 67.5% thru December 1, 1973.
Venezuela	\$2.22/kilo (gross weight including packing)

EXH. K

Mr. BURKE. Our next witnesses are the witnesses on the machine tools. Our first witness is Philip O. Geier, Jr. Is Mr. Geier here?

Do the machine tool people wish to testify together?

STATEMENTS OF PHILIP O. GEIER, JR., ON BEHALF OF NATIONAL MACHINE TOOL BUILDERS ASSOCIATION; DANIEL W. LeBLOND, PRESIDENT, R. K. LeBLOND MACHINE TOOL CO.; AND GEORGE W. HERKNER, EXECUTIVE VICE PRESIDENT, WARNER & SWASEY CO.

Mr. GEIER. We prefer that, Mr. Chairman.

Mr. BURKE. Is Mr. Daniel W. LeBlond here?

Mr. LEBLOND. Yes, Mr. Chairman.

Mr. BURKE. And Mr. George W. Herkner?

Mr. HERKNER. Yes.

Mr. BURKE. And Mr. Bernard J. Shallow?

Mr. HERKNER. He will testify separately.

Mr. BUSH. Mr. Chairman, before these gentlemen testify, our colleague, Congressman Taft, regrettably couldn't be here today; but he had planned to introduce these gentlemen, two of whom I believe are from Cincinnati, and I just wanted to make that statement. They are personal acquaintances of his and I just wanted to call that to your attention.

Mr. BURKE. Yes, Congressman Taft did expect to be here. Also Mr. Vanik, of Ohio, expressed his concern about the plight of the tool industry. He was also called out of the room just a few minutes ago and I don't know whether he will have time to come back and hear your testimony; but I know he will read your entire statements. You may proceed.

STATEMENT OF PHILIP O. GEIER, JR.

Mr. GEIER. Mr. Chairman and members of the committee, my name is Philip O. Geier, Jr. I am president of the Cinncinati Milling Machine Co. of Cincinnati, Ohio, and a member of the board of directors of the National Machine Tool Builders Association. It is a pleasure to appear before you.

There isn't time today for a detailed review of our Nation's balance-of-trade problems as they relate to the machine tool industry. For that reason, we have filed with the committee a comprehensive brief which includes all of the essential facts. My purpose in appearing before you today is to summarize the industry's basic position on trade issues.

Two members of the machine tool industry are here with me. They are Mr. Daniel W. LeBlond of the R. K. LeBlond Machine Tool Co., of Cincinnati, and Mr. George W. Herkner of the Warner & Swasey Co., of Cleveland. Each has a statement to make on behalf of his own company and in support of the industry's statement.

The National Machine Tool Builders' Association—or NMTBA for short—represents about 75 percent of the U.S. machine tool industry. As you gentlemen know, machine tools are the master tools of industry. Not only are they needed to produce all other forms of machinery—they alone among machines can reproduce themselves—but virtually no modern products or equipment can be made without them, neither automobiles for the civilian nor tanks for the soldier.

The national defense need for maintaining a technologically advanced machine tool industry is recognized by every industrial nation in the world.

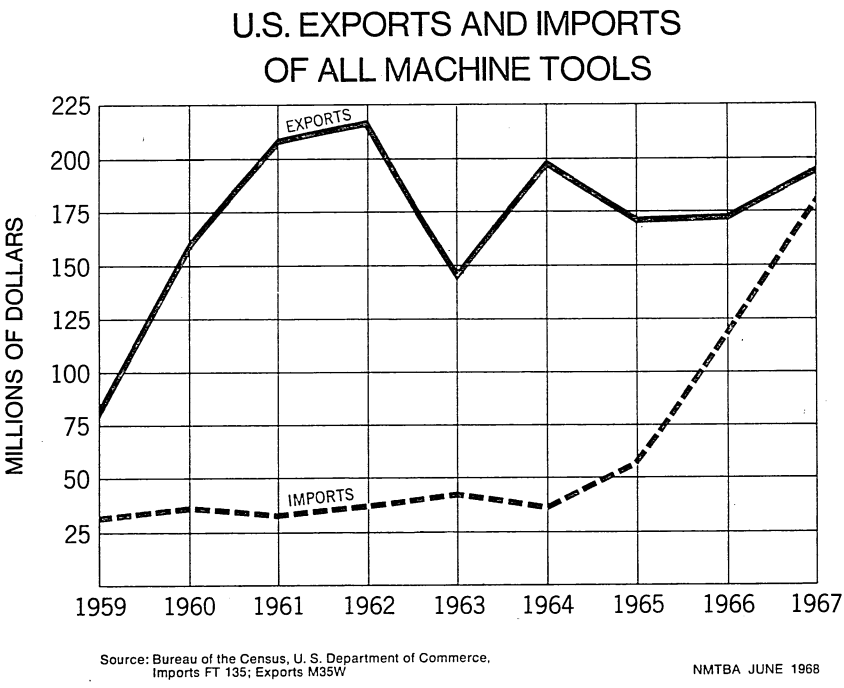
Gen. George C. Marshall, speaking as Chief of Staff during World War II, summed it up by observing:

> Practically every problem concerned with the production of arms and equipment, ships and planes, starts with the question of machine tools. The tool builders, therefore, constitute the keystone of the entire procurement structure.

General Marshall's observation is just as pertinent today as it was more than 25 years ago. The U.S. machine tool industry faces serious problems today resulting from the lower labor costs abroad that have created drastic changes in the pattern of U.S. imports and exports. We believe that immediate remedial steps are necessary to make certain that the United States continues to have the machine tool capability to meet the needs of both a defense and a peacetime economy.

Since 1964 when this industry testified at the Trade Information Committee hearings the industry's position in world trade has deteriorated. Chart 1 on my left, your right, "U.S. Imports and Exports of All Machine Tools," shows that in 1964 the value of machine tool exports was nearly $200 million, while imports amounted to only $36 million. Our favorable trade balance in 1964 of $162 million was reduced to only one-tenth of that amount, or $16 million, in 1967. Last year imports were $178 million, nearly five times the 1964 level. And

CHART I



in 1968, it appears certain that the United States will become a net importer of machine tools, with a probable deficit of $50–$70 million.

This deficit for the current year does not come unannounced. The biggest single sector of machine tools is metal cutting tools, which account for about 75 percent of all domestic machine tool production. Chart 2, "U.S. Exports and Imports of Metal Cutting Machine Tools," shows the United States was a net importer of metal cutting tools in 1967, and in two major subcategories of metal cutting machine tools—milling machines and lathes—negative trade balances appeared even earlier, in 1966.

Chart 3, "U.S. Exports and Imports of Milling Machines" shows the position for milling machines, a deficit position in 1966. Mr. LeBlond's presentation will give you the story on lathes.

A relatively few countries account for the tremendous growth of machine tool imports. Over 80 percent come from four European countries (West Germany, United Kingdom, Italy, Switzerland) and Japan. Chart 4, "Imports of Machine Tools by Country of Origin" shows the rapid rise. The chart shows absolute figures. My comments will refer to percentage increases. For example, machine tool imports from Canada in 1967 increased 467 percent over 1964. Italian imports rose 962 percent. Japanese imports shot up 1,210 percent. The United Kingdom's climbed 439 percent. And imports from West Germany increased 302 percent.

CHART 2

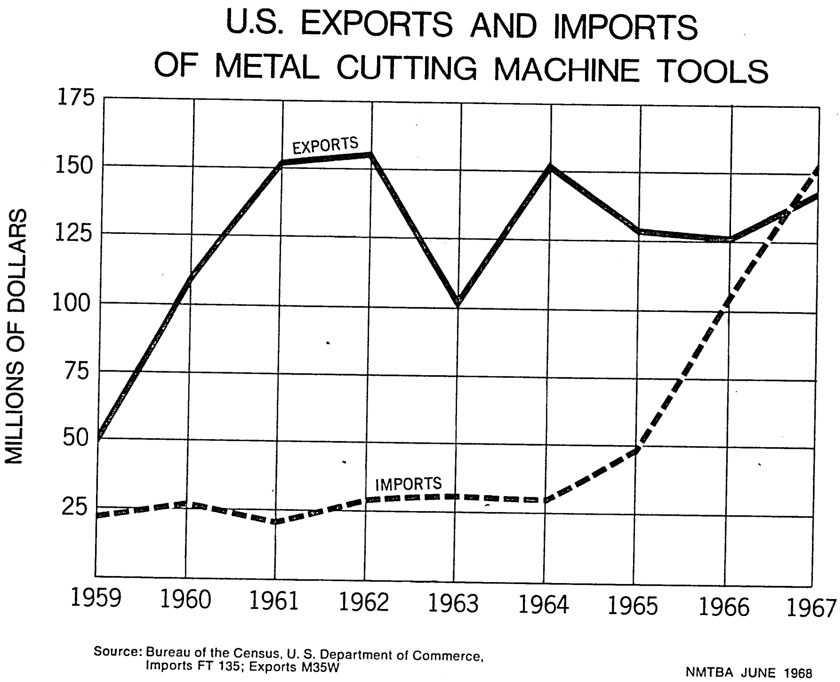
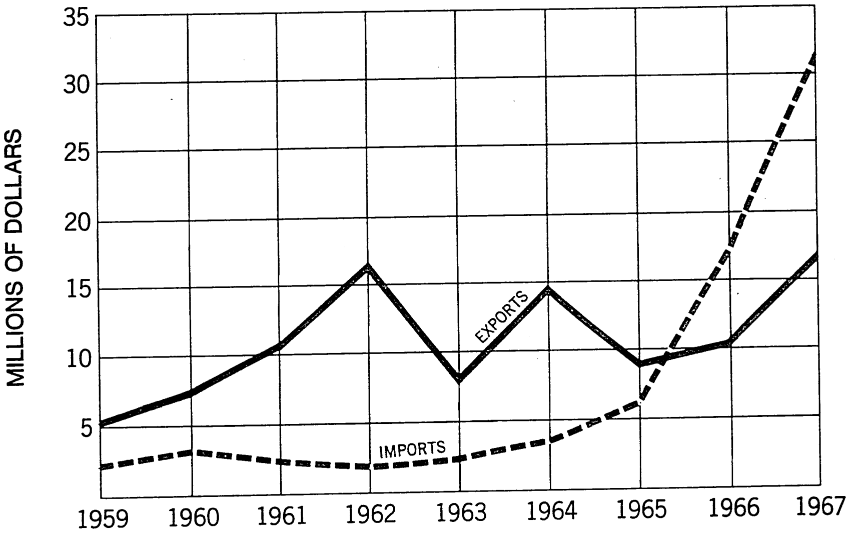


CHART 3

U.S. EXPORTS AND IMPORTS OF MILLING MACHINES



Source: Bureau of the Census, U. S. Department of Commerce, Imports FT 135; Exports M35W

NMTBA JUNE 1968

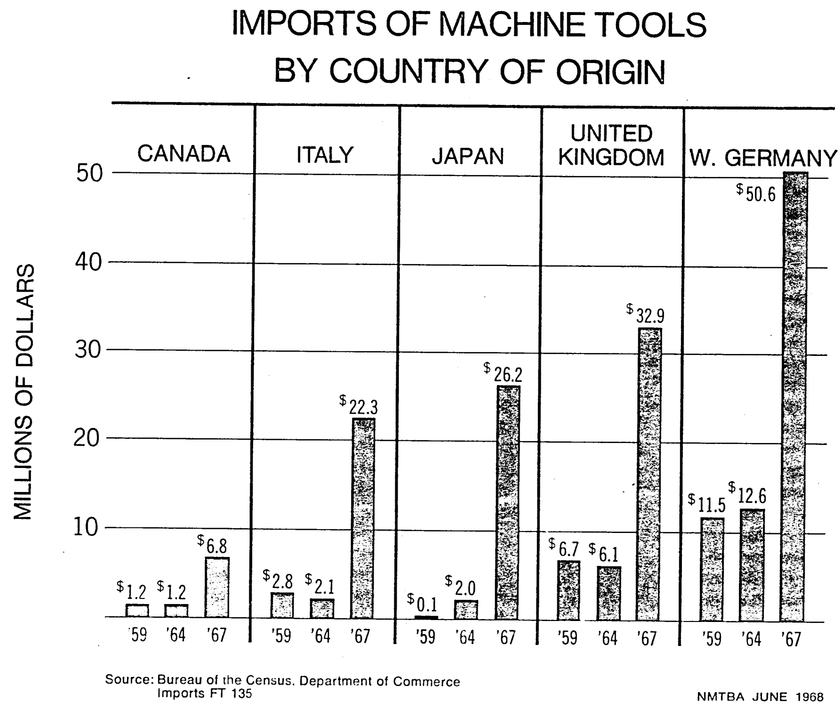
It should be noted that imports account for an ever-increasing percentage of domestic consumption, having increased threefold since 1964 to total about 10 percent of U.S. consumption last year.

This may not appear to be a cause for alarm. But considering the imports and consumption figures for particular product categories, the seriousness of the problems becomes apparent. As an example, imports of milling machines in 1967 accounted for 12.6 percent of domestic consumption. This percentage is based on dollar relationships. On a unit basis, the percentage is considerably higher and accounts for about 19.5 percent of domestic consumption.

The most important cause of the import problem is the price advantage offered by foreign manufacturers, reflecting their much lower labor costs. A continuing widening of the wage gap has occurred between the United States and each of the other major machine tool producing countries. Chart 5, "Average Hourly Earnings and Supplementary Benefits" shows the extent of the gap existing today between the United States and other major producers of machine tools. This gap is critical because the labor content of U.S. machine tools approaches 50 percent of total cost. As a result, the lower labor rates that prevail abroad enable foreign builders to sell in this country at 25 percent to 40 percent below the price of comparable U.S.-bulk products.

Note on the chart that the wage rates paid in Japan are less than one-sixth those in the United States and in the closest country, Germany, the wage rates are one-half those paid in the United States.

CHART 4



This price disparity can no longer be said to be offset by quality differences. Foreign builders have made tremendous technological strides and produce high quality, sophisticated machines.

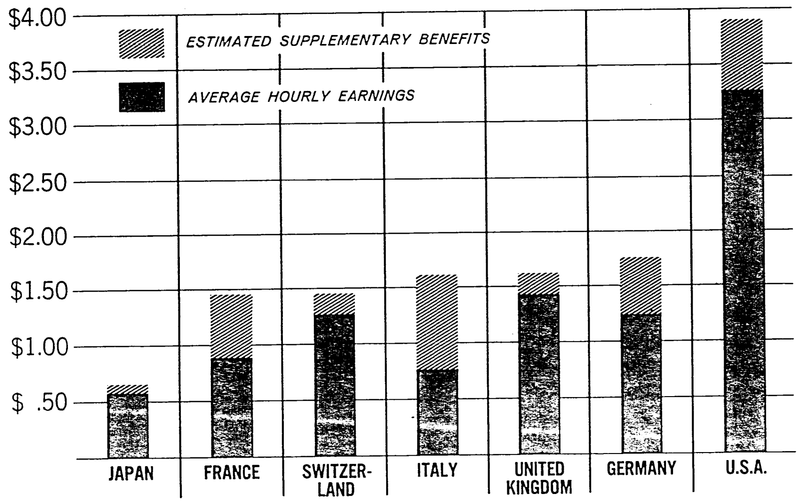
Machine tool builders exporting into the United States also receive important export assistance from their governments. Particularly significant is the widespread practice of rebating to exporters, or exempting them from, various "indirect" domestic taxes (such as "turn over," "value added," or other taxes) that are a principal source of revenue in these foreign countries. Under GATT the rebate of such indirect taxes is permissible, but the rebate of "direct" taxes—such as the U.S. corporate income tax—is prohibited, making it much more difficult for U.S. builders to compete in world markets and to help with our balance-of-payments problem.

Foreign governments also strongly support their machine tool builders at home. In many major machine tool markets U.S. machine tool exports are exposed to nontariff border taxes. These include a value added tax of 20 percent in France, a 10-percent equalization tax in Germany, and in Italy a 4-percent duty and a 7.5-percent compensatory import tax.

U.S. machine tool builders also encounter other nontariff obstacles in export markets. Many machine tool exports to Japan, for example, are effectively blocked by purposeful governmental inaction on the

CHART 5

AVERAGE HOURLY EARNINGS
AND SUPPLEMENTARY BENEFITS*



Sources: "Hourly Wages and Hours of Work" in *Social Statistics*, =8—1967

*Figures represent Machine Tool Industry or closest related available industry group, for 1966 and 1967

NMTBA JUNE 1968

import licenses needed by potential Japanese customers for U.S.-built tools.

In short, gentlemen, the U.S. machine tool industry is fighting a losing battle in the balance of trace—in fact, with our exports declining and foreign imports rising, we are losing the battle on both fronts. Any further increase in the level of imports, either generally or with respect to particular segments of the industry, could seriously erode the health and stability of the domestic machine tool industry. Therefore, we believe Government action is imperative. Our recommendations, in summary form, are as follows:

1. We believe that the United States should negotiate no further tariff concessions on machine tool imports.

2. We believe that Congress should seriously consider the enactment of a system of import surcharges. Under this system, imports of particular categories of machine tools would be exposed to a surcharge when they reached about 10 percent of domestic consumption. Our proposal, outlined in general terms in our brief, is a flexible and temporary response to an emergency situation. The progressive import surcharges proposed would be simpler to administer than quotas, and less likely to invite retaliation abroad.

3. We urge that Congress give consideration to the adoption, as a partial or complete substitute for the current Federal corporate income tax, of a system of "value added" taxation such as is being increasingly adopted in other industrialized nations. This would permit tax rebates comparable to those given foreign builders, thus al-

lowing U.S. exports to be sold at more competitive prices in the world market and improving our balance of trade.

4. The United States should press for the elimination of preferential and discriminatory tariff and nontariff trade barriers abroad. Prior to the Kennedy round there was Government assurance that the removal of foreign nontariff restrictions would be a condition of any tariff concessions by the United States. This condition has not been fulfilled.

5. Our export control procedure should be modified so that potential exporters know, in advance of actual sale, if export licenses will be issued.

6. We believe that existing governmental programs for financial export sales should be significantly improved.

7. We recommend that consideration be given to the enactment of income tax incentives to expand exports, such as those currently provided with respect to Western Hemisphere trading corporations. There would seem to be sound reasons for the Government's offering tax incentives to exporters generally, not merely to those exporting to Western Hemisphere nations.

8. Finally, we strongly support legislation that would grant to U.S. industry, capital recovery allowances comparable to those granted by other industrial nations. We believe our principal hope of expanding, or even maintaining, our traditional export market for high labor content products such as machine tools, lies in the accelerated modernization of our domestic industrial plants.

The prospect for this modernization and for solving our balance of trade problem would be bleak indeed if this committee had not recognized in the past that realistic tax depreciation and capital recovery allowances comparable to those of other industrial nations are needed to generate the cash flow and profits so necessary to facilitate modernization and low cost production. Now we need to update these allowances as the other industrial nations have done.

As important as further liberalization is assurance to U.S. industry that these capital recovery allowances and incentives will not be turned on and off as political winds and economic forecasts change direction. Our depreciation allowances and tax investment credits must be grounded in permanent law, not just in regulatory guidelines, subject to administrative change or even withdrawal.

We appreciate and thank you for this opportunity to present our views.

(Mr. Geier's prepared statement follows:)

STATEMENT OF PHILIP O. GEIER, JR., NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION

The National Machine Tool Builders' Association (NMTBA) is a trade association representing 236 American machine tool manufacturing companies, which account for approximately 75% of U.S. machine tool production. The Association's headquarters are in Washington, D.C. Its members operate manufacturing plants and provide employment for approximately 110,000 persons in 23 industrial states.

Machine tools have been called "the master tools of industry," for they are the machines required to produce all others and, alone among machines, can reproduce themselves. Machine tools have also been called "the cutting edge of industrial productivity," for they are the essential machines which cut and bend and form metal, and as such are the foundation of a modern industrial economy. Virtually no modern products or equipment can be made without machine tools, neither automobiles for the civilian nor tanks for the soldier.

The military essentiality of maintaining a technologically advanced machine tool industry with modern plant and equipment, broad product capability and a full spectrum of machine tool lines is recognized by every industrial nation. General George C. Marshall, Chief of Staff during World War II, once observed:

"Practically every problem concerned with the production of arms and equipment, ships and planes, starts with the question of machine tools. The tool builders, therefore, constitute the keystone of the entire procurement structure."

The continuing validity of General Marshall's observation was recognized again in the Korean War and since then has been frequently documented before Congress.* Illustrative of current recognition of the importance to our national defense of machine tools is the Government's M-Day Pool Order program under which a broad range of standard general purpose machine tools is on standby order with machine tool builders, to be manufactured and delivered on a priority basis the moment the need arises. A schedule of those standard general purpose machines subject to pool order contracts is attached to this Statement as Appendix F.

We are today deeply concerned by the ominous portents in the import-export picture that point to imminent cessation of production of certain lines of machine tools vitally needed for defense as well as for a healthy peacetime industrial economy. Accordingly, we are pleased to have this timely opportunity to present our views on United States balance of trade problems as they relate to the machine tool industry and the national interest.

Since 1964 when we testified in opposition to negotiated tariff reductions, the position of our industry in world trade was worsened.** We believe that remedial steps are necessary, both in our interest and that of the country as a whole, to make certain that the United States has a machine tool capability to meet the needs of both a defense and a peacetime economy. Before moving to our specific recommendations, however, we should like briefly to analyze the machine tool import-export situation as we see it and comment on some of the factors that, in our view, require governmental response.

I. BALANCE OF TRADE

The machine tool industry, like the country as a whole, is fighting a balance of trade war. This is a war that is fought on two fronts. But as Figure 1 on the following page graphically demonstrates, and as the figures in Table 1 on page 5 show, neither the battle to expand exports nor the battle to fend off imports is going well, principally for the reason that higher labor and material costs in the United States make competition with cheaper foreign, machines very difficult. In an industry such as ours where labor costs often represent as much 50% of total product cost the substantially lower costs and prices of competing imports present a critical problem.

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*See, *e.g.,* S. Rep. No. 1107, 82d Cong., 2d Sess., p. 1 (1952) ; S. Rep. No. 1988, 82d Cong., 2d Sess., p. 41 (1952) ; S. Rep. No. 2229, 84th Cong., 2d Sess., p. 31 (1956). Testimony of Charles P. Taft in 1962 Hearings on H.R. 9900. p. 29 (1962).

**NMTBA Position Paper in Opposition to Reduction of United States Tariff on Machine Tools (TSUS Numbers 674.30–674.56), presented by E. M. Hicks (February 3, 1964), referred to hereafter as "1964 NMTBA Position Paper."

Figure 1

Source: Bureau of the Census, U. S. Department of Commerce, Imports FT 135; Exports M35W

NMTBA JUNE 1968

TABLE 1.—ALL MACHINE TOOLS (EXCLUDING PARTS AND ATTACHMENTS)

[Exports from, and imports into, the United States, 1964–67]

Year	Exports		Imports		Balance dollars (millions)
	Units	Dollars (millions)	Units	Dollars (millions)	
1964	14,110	$198.6	24,298	$36.4	$162.2
1965	12,475	171.2	32,152	56.3	114.9
1966	14,634	173.2	61,679	117.7	55.5
1967	12,861	194.1	64,710	178.2	15.9

Source: Bureau of the Census, U.S. Department of Commerce, imports, FT 135; Exports, M35W.

Since 1964 exports have not increased, and there will be a significant decline in 1968. In a given calendar year U.S. machine tool exports tend to follow closely the figures for net new foreign orders reported by NMTBA during the previous calendar year. For example, NMTBA reported exports of metal cutting machine tools in 1967 of $142.2 million, following reported net foreign orders in 1966 of $146.8 million. On the basis of this relationship, 1968 exports of machine tools can be expected to fall short of 1967 exports by approximately $40 million. Total 1967 net new foreign orders for metal cutting and metal forming tools (the two basic categories of machine tools) were down $36.5 million and $5.9 million respectively, giving a combined drop of $42.4 million.

It is harder to predict the probable increase in the level of machine tool imports in 1968. However, the trend in the past several years, as indicated by Census Bureau statistics, points to continued increases. And it is an inescapable fact that U.S. costs and prices have been going up as fast or faster than those of our European and Japanese competitors. Imports in 1965 of $56.3 million exceeded

1964 imports by 55%, imports in 1966 of $117.7 million exceeded 1965 imports by nearly 110%; imports in 1967 of $178.2 million exceeded 1966 imports by 51%.

It is not clear that the same rate of increase will obtain in 1968. A greater proportion of shipments of foreign machines may be made from built-up inventories. Also, decreasing backlogs may enable some U.S. manufacturers to make faster deliveries and thus capture some domestic sales that might otherwise go to foreign builders. These factors would seem to explain the fact that imports during the first quarter of 1968 were slightly below 1967 levels.

But the basic causes of import growth persist. Significant price advantages offered by foreign builders as a result of their lower costs, continuation by them of aggressive sales and service efforts, reduced tariff protection under the progressive 50% Kennedy Round concessions, in many cases faster delivery—all promise to step up the pressure of imports. Accordingly, we would expect to see imports continue to climb in 1968, possibly 25% above 1967. This is a conservative prediction in the light of experience but nevertheless would mean an increase in imports of $45 million or more.

Putting these projections together, the balance of trade outlook becomes unhappy indeed. As the figures in Table 1 show, in 1964 U.S. exports of machine tools exceeded imports by $162 million. By 1966 the U.S. advantage had shrunk to $56 million and by 1967 to only $16 million, or 10% of the 1964 trade surplus. It appears certain that *the United States will become a net importer of machine tools in 1968*, with the deficit possibly falling between $50 million and $70 million. And in the absence of effective government measures we see no reason to anticipate improvement in 1969 or 1970.

The unfavorable trade balance that we see in 1968, though unprecedented when the industry is considered as a whole, does not come unannounced. The biggest single subdivision of the machine tool market is metal cutting tools, which account for about 75% of all domestic machine tool production. As appears from Table 2 below and Figure 2 on the following page, *the United States became a net importer of metal cutting tools in 1967.*

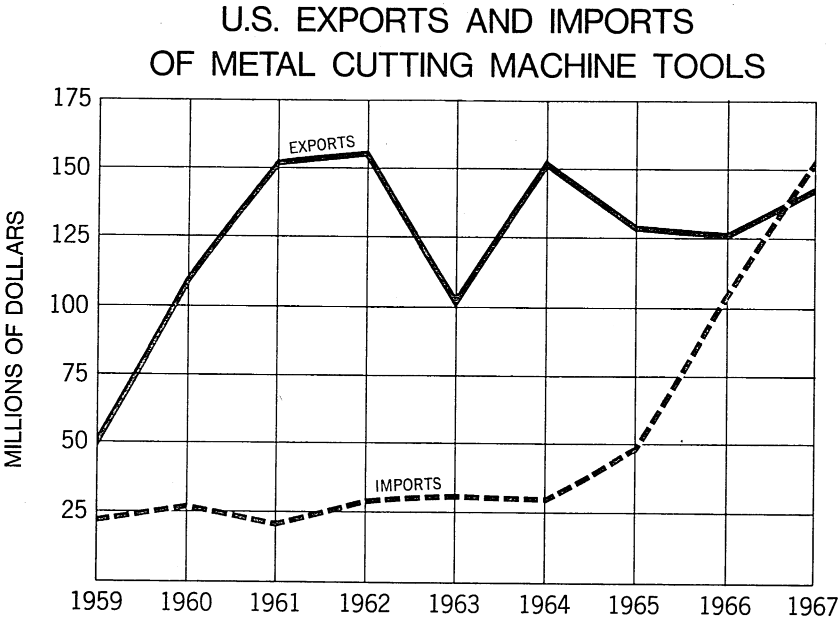
TABLE 2.—METAL CUTTING MACHINE TOOLS (EXCLUDING PARTS AND ATTACHMENTS)

[Exports from, and imports into, the United States, 1964–67]

Year	Exports		Imports		Balance dollars (millions)
	Units	Dollars (millions)	Units	Dollars (millions)	
1964	10,577	$151.4	16,845	$30.6	$120.8
1965	9,137	127.1	23,600	48.1	79.0
1966	11,425	126.7	54,235	104.7	22.0
1967	10,037	143.9	53,356	153.5	9.6

Source: Bureau of the Census, U.S. Department of Commerce, imports, FT 135; exports, M35W.

Figure 2



Source: Bureau of the Census, U. S. Department of Commerce, Imports FT 135; Exports M35W

NMTBA JUNE 1968

When particular categories of metal cutting tools are examined negative trade balances appear even earlier. Tables 3 and 4 and Figures 3 and 4 on the following pages show that *the United States became a net importer of lathes and milling machines in 1966.* By 1967 the negative balance of trade in these product lines had exceeded the 1964 positive balance—in the case of lathes, minus $29 million compared to plus $19 million; in the case of milling machines, minus $15 million compared to plus $12 million.

TABLE 3.—LATHES (EXCLUDING VERTICAL TURRET LATHES AND ALL PARTS AND ATTACHMENTS)

[Exports from, and imports into, the United States, 1964–67]

Year	Exports		Imports		Balance dollars (millions)
	Units	Dollars (millions)	Units	Dollars (millions)	
1964	1,633	$28.2	6,083	$8.9	$19.3
1965	1,322	20.1	8,736	14.2	5.9
1966	1,131	18.6	14,819	37.2	18.6
1967	1,083	18.7	15,654	47.7	29.0

Source: Bureau of the Census, U.S. Department of Commerce, imports, FT 135; exports M35W.

TABLE 4.—MILLING MACHINES (EXCLUDING PARTS AND ATTACHMENTS)

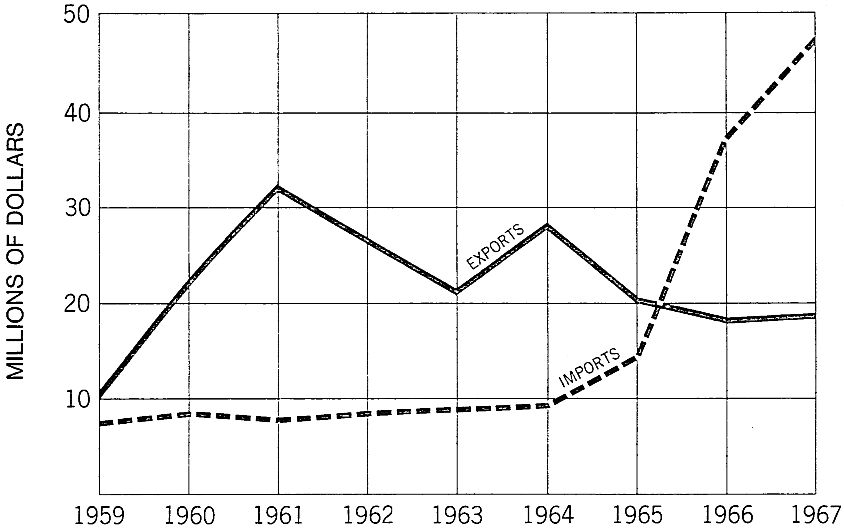
[Exports from, and imports into, the United States, 1964–67]

Year	Exports		Imports		Balance dollars (millions)
	Units	Dollars (millions)	Units	Dollars (millions)	
1964	507	$41.8	656	$3.3	$11.5
1965	398	8.8	1,128	6.1	2.7
1966	338	10.2	3,405	17.4	7.2
1967	399	16.8	5,715	31.4	14.6

Source: Bureau of the Census, U.S. Department of Commerce, imports, FT, 135; exports, M35W.

Figure 3

U.S. EXPORTS AND IMPORTS OF LATHES



Source: Bureau of the Census, U. S. Department of Commerce, Imports FT 135; Exports M35W

NMTBA JUNE 1968

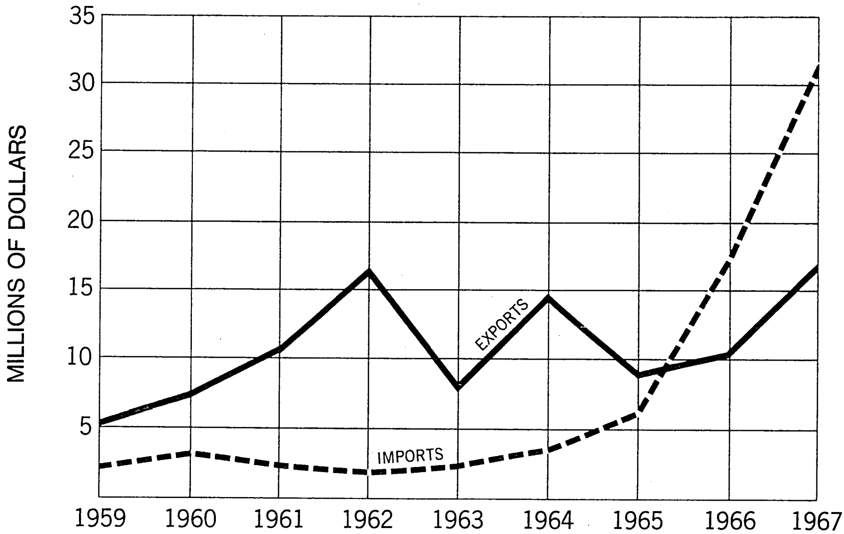
II. IMPORTS IN RELATION TO CONSUMPTION

Even more disturbing are the figures that show imports to account for an ever increasing percentage of domestic consumption. Considering the technological advantages that the United States has traditionally had over foreign competitors and until recently the preoccupation of many foreign builders with exploiting other, more traditional markets, it is not surprsing that as recently as 1964 imports accounted for only 3.6% of domestic consumption. By 1967, however, the figure had increased about three times, to 9.9%.*

*These percentages are based on published Government import figures and therefore are understated. The Government import figures do not include freight and insurance costs, which of course are reflected in the selling price in this country and are part of the landed value of the imported product. One observer has estimated that the "landed cost" of imports is 10 percent higher than the reported cost. Testimony of T. E. Velfort, Hearings on the Future of U.S. Foreign Trade Policy before the Subcommittee on Foreign Economic Policy, Joint Economic Committee, 90th Cong., 1st Sess., p. 429 (1967). The NMTBA has estimated the cost of freight and insurance from Europe to the U.S. for machine tools at 4% of value. 1964 NMTBA Position Paper, p. 24.

Figure 4

U.S. EXPORTS AND IMPORTS OF MILLING MACHINES



Source: Bureau of the Census, U. S. Department of Commerce, Imports FT 135; Exports M35W

NMTBA JUNE 1968

But this relative industry-wide increase only begins to suggest the problem. As the 1967 import penetration figures in Table 5 show, particular major segments of the industry have been experiencing far more serious home market losses.

TABLE 5.—U.S. MACHINE TOOL IMPORTS AS A PERCENTAGE OF U.S. MACHINE TOOL CONSUMPTION

[By types (based on dollar value), 1964–67]

	1964	1965	1966	1967
All machine tools	3.6	4.3	7.3	9.4
Metal-cutting types	4.2	5.1	8.9	11.5
Metal-forming types	2.0	2.3	3.0	5.0
Gear cutting and hobbing types	4.6	8.1	5.6	9.3
Drilling types	2.5	3.0	5.2	6.1
Lathes (excluding vertical turret lathes)	5.1	6.3	12.4	13.0
Grinding machines	3.6	3.6	6.0	7.7
Milling machines [1]	2.9	4.3	8.3	12.4
Boring machines (including vertical turret lathes) [1]	5.6	6.5	10.8	15.
Other metal-cutting machines	4.6	5.2	8.6	11.

[1] Includes shipments of machine tools with an average value of $1,000 or less. All other categories exclude shipments of machine tools with an average value of under $1 000.

Source: U.S. Department of Commerce: Shipments—Current industrial reports, metalworking machinery (M35W); exports—M35W, Bureau of the Census; imports—FT 135, Bureau of the Census.

Table 5 shows that imports of milling machines, lathes and indeed all metal cutting machines considered as a group now exceed 11% of domestic consumption. Imports of boring machines and vertical turret lathes exceed 15% of domestic consumption.

Even these figures, however, do not tell the whole story, though unfortunately the remainder of it cannot be precisely quantified. The Bureau of the Census does not generally or consistently report imports by subcategories of the classifications set forth in Table 5, and fully reliable import figures with respect to such subcategories are not available. However, we know that imports of particular subcategories of machine tools occupy a far more significant share of domestic consumption than the figures in Table 5 would indicate.

We also know that imports occupy a much greater share of domestic consumption when figured on a unit rather than a dollar basis. For example, figures developed by the Metalworking Equipment Division of the Business and Defense Services Administration and verified to the extent possible by the NMTBA's statistical staff suggest that, on a unit basis imports of lathes account for about 30% of domestic consumption and imports of boring machines about 36%. See Appendices A–D to this Statement.

Increases in imports of course mean increases in the degree to which U.S. industrial consumers subsidize foreign employment—particularly so in the case of high labor content products such as machine tools. We estimate, for example, that 1967 imports of machine tools represented, from within the machine tool and supplier industries, a labor component of over 25 million manhours—the equivalent of more than 12,000 jobs.

When absolute increases in imports are accompanied by increases in imports as a percent of domestic consumption, it is of course apparent that U.S. subsidization of foreign employment is at the expense of U.S. workers.

III. THE PRINCIPAL SOURCES OF IMPORTS

Over 80% of imports of machine tools into the United States come from four European countries (West Germany, the United Kingdom, Italy, Switzerland) and Japan. A breakdown of imports by country of origin for the period 1964–1967 is shown in Table 6 below. See also Figure 5 on the following page, which graphically demonstrates the tremendous increases in imports from four of the above countries and Canada that have taken place since 1964, with 1959 imports shown to illustrate by comparison the significance of 1964–1967 increases.

TABLE 6.—ALL MACHINE TOOLS (EXCLUDING PARTS AND ATTACHMENTS)

(Imports into the United States, by country of origin, 1964–67)

[Dollar amounts in millions]

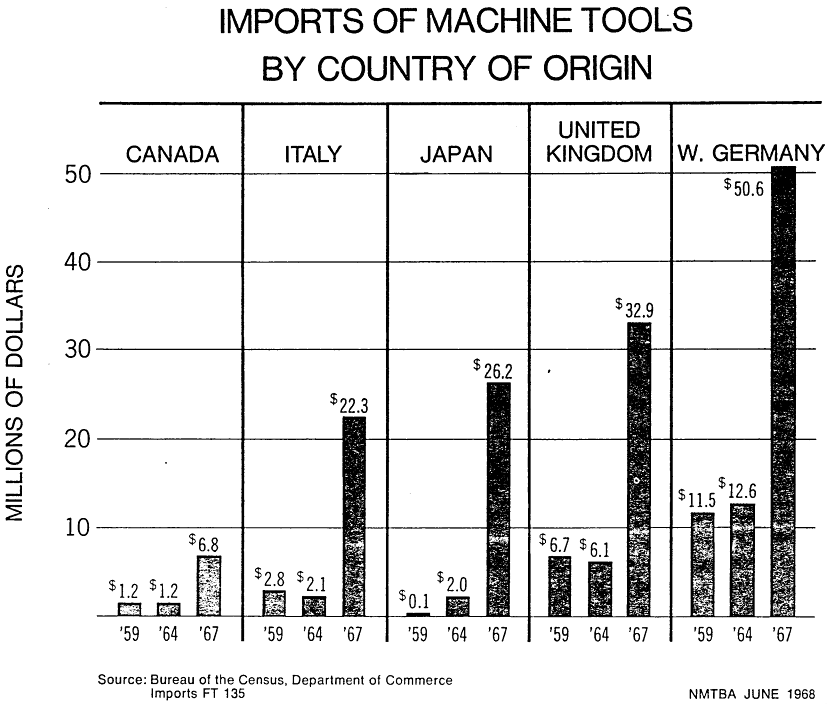
Country of origin	1964	1965	1966	1967	1967 increase over 1964 (percent)
West Germany	$12.6	$19.4	$35.3	$50.6	301.6
United Kingdom	6.1	7.8	17.2	32.9	439.3
Japan	2.0	4.8	17.3	26.2	1,210.0
Italy	2.1	5.2	11.8	22.3	961.9
Switzerland	7.2	8.9	15.0	15.5	115.3
All others	6.4	10.2	21.1	30.7	379.6
Total	36.4	56.3	117.7	178.2	389.6

Source: Bureau of the Census, U.S. Department of Commerce Import FT 135.

As Table 6 and Figure 5 show, the Germans have managed through the 1960's to export the greatest share of foreign machine tools purchased in the United States. In recent years they have made impressive gains. In 1967, for example, German deliveries to U.S. customers were almost 40% more than all U.S. imports in 1964. From 1960 through 1967 German builders installed over $170 million of machine tools in U.S. metalworking plants. Each of these installations of course represented an indirect job loss to U.S. workers.

The increase in Japanese imports into the United States in recent years has been astonishing, rising from virtually nothing ($100,000) in 1959 to over $26 million by 1967. This success is, of course, due to the extremely lower Japanese labor costs, but it has been given added momentum by the intensive promotional and selling efforts of the Japan Machine Tool Trade Association, beginning in

Figure 5



1960 with the opening of a permanent Japanese machine tool display center in Chicago. Since then Japanese companies have exhibited in trade shows and expositions, advertised widely in technical and business journals, and demonstrated machines in operation at display centers throughout the country. With their lower costs the Japanese have been able to extend very liberal credit terms, install machines in U.S. plants on a trial basis with no down payments and give American sales agents and distributors unusually high commission rates.

The most severe Japanese competition to U.S. builders and workers has been in low priced standard machines, such as engine lathes. Increasingly, however, the Japanese have become a threat in the more sophisticated types, such as high precision turret lathes and numerically controlled machine tools and machining centers. Japanese manufacturers of numerically controlled machines assure American customers they are now able to guarantee the high quality parts and servicing of the U.S. builder.

The British also have moved to gain a permanent hold in the U.S. market. Machine tool imports from Britain climbed from $6 million in 1964 to almost $33 million in 1967, spelling both lost profits to U.S. builders and reduced job opportunities for U.S. workers. While price and delivery have been important in bringing about this big gain, the British are also concentrating on building effective service organizations. Staveley Machine Tools Ltd., largest of the British machine tool combines, has set up a network of U.S. distributors, backed by Staveley-trained engineers. It is interested in selling specially engineered equipment as well as standard machine tools.

Charles Churchill & Co. Ltd., a subsidiary of Britain's huge Tube Investment Ltd., a conglomerate, recently established an American company, Churchill-Froriep Corp., at Stamford, Connecticut. Churchill-Froriep has reportedly appointed twenty U.S. distributors and expects to appoint still more. It is also reportedly maintaining a government-financed $400,000 inventory of machines and parts and has placed some machines with U.S. distributors on consignment.

Alfred Herbert Ltd. has revitalized its U.S. selling organization. The company reportedly has coast-to-coast distribution, has factory-trained servicemen stationed with each of its U.S. distributors and carries a large inventory of parts in this country.

Wickman Machine Tool Co. Ltd., which maintains an engineering and sales office in this country, has sought U.S. business aggressively. Recently its U.S. subsidiary, Wickman Machine Tools Overseas Ltd., decided to build a permanent showroom in the Chicago area, as has Associated British Machine Tool Makers Ltd. ABMTB is an export sales company formed by a group of non-competing British builders and is roughly similar to our Webb-Pomerene associations such as AMERTOOL and AMTEA in the U.S. machine tool industry.

The British once sold only standard general purpose machine tools in the United States. Recently, however, they have begun to sell more sophisticated machine tools here, such as a $300,000 crankshaft grinder, claimed to be the world's largest, to a U.S. corporation and a $120,000 center lathe to the same firm. The British now design new machine tools specifically for the U.S. market. An example is the Marwin numerically-controlled high-speed routing machine. Marwin received an order for 46 of these machines from a large U.S. defense contractor for delivery to its own plants and the plants of subcontractors.

Many German machine tool companies sell in the U.S. through an exclusive nationwide distributor, who in turn appoints his own network of sales agents. Kurt Orban Company, Inc., Jersey City, New Jersey, is the exclusive American distributor for a number of German builders. Orban is reported to maintain a sizeable stock of replacement parts and has a staff of factory-trained servicemen who help install and service machines for U.S. customers.

A few German builders have their own sales companies. American Schiess of South Bend, Indiana, is the U.S. engineering, sales and service organization for marketing the machine tools of the Schiess Company, one of Germany's largest machine tool builders, which makes a wide range of machines, including horizontal milling and boring machines and vertical turret lathes.

Reinhard Bohle has a Detroit based company, Reinhard Bohle Machine Tools, Inc., selling its profile milling machines to the U.S. aircraft industry. Stoffel-Fortuna, Inc., Tuckahoe, New York, is the U.S. sales agency for Fortuna grinding machines and the grinding machines of several other German builders.

Some German builders sell through American distributors who handle machine tools produced in other countries as well. Cosa Corporation, of New York, is one of these companies, being the sales representative for such German machines as Weiler lathes, Staehely and Koepfer gear hobbing machines and Steckel milling and boring machines.

IV. CAUSES OF THE IMPORT PROBLEM

The primary reason that imports are overtaking exports and at the same time occupying an ever-growing share of domestic consumption is the cost advantages enjoyed by foreign sellers that enable them, generally speaking, to quote their products at from 25% to 40% below the price of comparable domestically-produced machine tools. Machine tools are a high labor content product, and the principal cost advantage enjoyed by foreign competition is the significantly lower labor rates that prevail abroad.

Appendix E to this Statement sets forth a series of U.S.-foreign price comparisons that illustrates the competitive advantage that flows from foreign builders' lower labor costs. One comparison, for example, shows that while a U.S.-made Universal turret lathe with a 2½'' bar capacity and motor and starter is quoted by its manufacturer at $21,095, a competitive Japanese product seels here for $13,400, or at 36.5% less.

Another comparison shows a U.S.-built plain knee and column milling machine, 5,350 pounds, 5½ H.P., selling at $17,250, while a competitive German machine sells here for $13,200, or 23.5% less.

Another shows a U.S.-built milling machine, weight 8,150 pounds, 10-3 H.P., selling at $23,980, while a competitive Spanish-built machine sells here for $10,970, or 54.3% less.

Still another shows the U.S. equivalent of a Czechoslovakian 78"x78"x30' split table planer mill which includes power draw bar, readout, etc., and with two 50 H.P. heads, one vertical and one side head, selling for between $425,000 and $450,000 f.o.b. plant, while the landed price of the Czechoslovakian machine in Los Angeles, including freight and duty, is $345,000, from 19% to 25% less.

Other comparisons show a Danish cutter grinder selling for 42% below a comparable U.S. model, an Italian centertype grinding machine selling for 48% below a comparable U.S. model and a Spanish centerless grinding machine selling for 60% below a comparable U.S. model.

As indicated, these lower foreign prices are a direct reflection of lower labor costs abroad, coupled with the high labor content of machine tools. Statistics furnished by the U.S. Department of Labor and set forth in Table 7 below show that the average hourly earnings and supplementary benefits of workers in the machine tool industry in the United States are significantly higher than those for any other major machine tool producing nation. See also Figure 6 on the following page. These comparisons essentially accord with the results of a survey made in early 1968 by NMTBA, in which nineteen U.S. machine tool companies reported that earnings (including fringe benefits) of comparable machine tool production workers in Western Europe, on an hourly basis, are from 40% to 70% below American workers' earnings.

TABLE 7.—AVERAGE HOURLY EARNINGS AND SUPPLEMENTARY BENEFITS IN THE MACHINE TOOL INDUSTRY IN THE UNITED STATES AND 6 FOREIGN COUNTRIES

Country	Date	Industry	1966–67 workers covered	Average hourly earnings	Estimated supplementary benefits	Compensation
France	September 1966	(1)	All	$0.89	$0.57	$1.46
Germany	October 1966	(2)	All	1.23	.53	1.76
Italy	do	(2)	All	.75	.86	1.61
Switzerland	do	(3)	Men	1.27	.19	1.46
United Kingdom [4]	October 1967	(2)	Men	1.41	.20	1.61
Japan	1966	(5)	All	.57	.07	.64
United States [6]	December 1967	(1)	All	3.26	.64	3.90

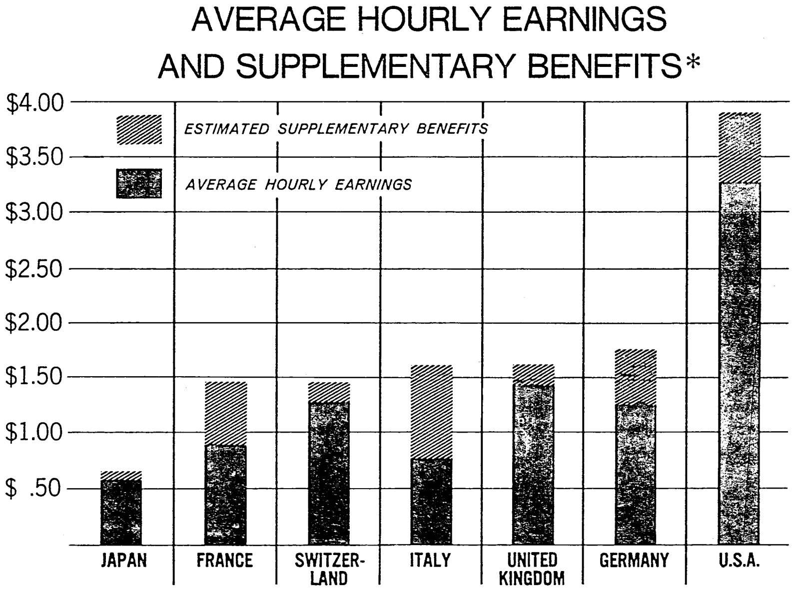
[1] Nonelectrical machinery.
[2] Machine tools.
[3] Metals and machinery.
[4] Before devaluation.
[5] Metalworking machinery.
[6] Average hourly earnings are taken as 83.8 percent of total compensation. This is based on BLS Bulletin 1428 for 1962; supplementary benefits may currently be higher.

Sources: "Hourly Wages and Hours of Work" in Social Statistics, No. 8, 1967, and other sources furnished by BLS. BLS, "Employment and Earnings" January 1968. BLS, Bulletin 1428.

Because of the importance of labor costs to total machine tool production costs, these differences in wage rates enable one company that manufactures an identical single spindle automatic chucking machine in the United States and England to sell the English-built machine for $30,500, f.o.b. plant, while the price of the American machine is $45,900, f.o.b. plant. A chart demonstrating the basic components of these contrasting prices is attached to this Statement as Appendix M.

Statistics compiled by the International Labor Organization (ILO) and the Organization for Economic Cooperation and Development (OECD) are not directly comparable with Table 7 because they do not include supplementary benefits and in some cases are based on somewhat different industry definitions. Nevertheless, they are useful in demonstrating the trends in labor costs in the machine tool producing countries. These figures, shown in Table 8, demonstrate that the gap between U.S. and foreign labor costs is wide and has increased steadily since 1960. For example, in 1960 U.S. machine tool employers paid $2.24 per hour more than their Japanese counterparts. By 1967 this differential had risen to $2.49. A similar widening of the wage gap has occurred in the case of each of the other major machine tool producing countries.

Figure 6



Sources: "Hourly Wages and Hours of Work" in *Social Statistics*, #8—1967

*Figures represent Machine Tool Industry or closest related available industry group, for 1966 and 1967

NMTBA JUNE 1968

TABLE 8.—VARIOUS METAL INDUSTRIES

[Average hourly earnings in selected countries, 1960, 1964, and 2d quarter of 1967]

Country and industries covered (by ISIC code) [1]	1960	1964	1967 (2d quarter)	Increase, 1960–67
United States (36)	$2.55	$2.87	$3.18	$0.63
Japan (36)	.31	.50	.69	.38
United Kingdom (31–38)	.99	1.14	1.36	.37
France (36–37)	.59	.78	.90	.31
Germany (35–38)	.68	1.04	1.26	.58
Italy (35–36)	.39	.60	.71	.32
Switzerland (34–38)	.86	1.16	1.39	.53

[1] ISIC codes for industries included: 34, basic metal industries; 35, manufacturers of metal products (excluding machinery and transport equipment); 36, manufacturers of machinery (excluding electrical machinery); 37, manufacturers of electrical machinery, apparatus, appliances, and supplies; 38, manufacturers of transport equipment.

Source: ILO, 1967 Statistical Yearbook ("Statistics of average earnings * * * usually cover cash payments received from employers, i.e., remuneration for normal working hours, payments for overtime, and time not worked (holidays vacation, etc.), production bonuses, cost-of-living allowances and special premiums * * *"), 1967 2d quarter data, calculated on the basis of OECD main economic indicators for earnings or rates.

The increasing dollar disparity between the relatively low costs of labor in Europe and the high labor costs in the United States can be expected to continue as a result of the constant upward pressure on wage levels in the United States, including those in the machine tool industry. The cost of settling one recent wage dispute in the machine tool industry was a wage increase of $.87 per hour, spread over a three year period, an average of $.29 per hour per year.

A second factor indicating the permanence of the import problem is the rapid progress being made by foreign machine tool builders in closing the gap in machine tool technology. The U.S. machine tool industry has competed at an increasingly serious price disadvantage for many years. Until recently, however, it had managed to hold its own, both at home and in world markets, because of the higher quality of its machines and its more sophisticated technology. U.S. builders still enjoy a lead in technology and quality over Western Europe and Japan and continue in the forefront of research and development, but their lead is diminishing. Today foreign builders are offering to potential customers not only first class standard machines but also highly sophisticated machines equipped with numerical control systems and other advanced technological features.

It is ironic but true that an important reason for this foreign development has been both official U.S. assistance to foreign machine tool builders, going back to the Marshall Plan, which financed modern machine tool plants for our European competitors, and private action in the form of licensing arrangements and investment by U.S. manufacturers in foreign machine tool production facilities, which has compelled foreign builders to improve design to stay competitive. Foreign investment by U.S. companies has been forced upon them both by ever-increasing domestic production costs and by tariff and non-tariff trade barriers in Europe and other important machine tool markets, which have made it increasingly difficult and in some instances impossible to export U.S. built machines to those markets. This shift of U.S. productive capacity abroad, whether through building new plants, buying existing plants or licensing foreign builders, has resulted in a wholesale exporting of technology and production methods to the foreign subsidiaries and licensees.

It should be noted in this connection that pressures on U.S. machine tool builders to establish production facilities abroad, or to expand already-established foreign facilities, continue to be intense. To a significant degree U.S. companies with foreign manufacturing subsidiaries have so far resisted the temptation to serve the U.S. market from abroad. It is not clear, however, how long they can continue to do so. Further substantial expatriation of machine tool capacity would be injurious from the standpoint of both our balance of payments problems and national security. It would also penalize—undoubtedly in many cases fatally—those companies that so far have failed to establish any foreign production base and have confined their manufacturing operations to the United States.

A third factor that accounts for the success of foreign machine tool builders in penetrating the U.S. market is the export assistance they receive from their governments. Such governmental assistance includes subsidizing exports by rebating domestic taxes with respect to exported products, insuring exporters against a wide range of credit risks, assisting in export financing, underwriting private promotional efforts abroad, financing foreign trade missions and participation in international trade fairs and aiding in foreign market research. The mechanics and details of export assistance programs of course differ from country to country. A detailed analysis of such programs in eight machine tool exporting countries—Germany, Britain, Japan, Switzerland, Italy, France, Belgium and the Netherlands—is set forth in Appendix G. As these analyses show, foreign machine tool builders are invading the U.S. market not only with the blessing of their governments but with their very effective cooperation and financing.

Of all the export promotion techniques employed by foreign government the most effective may well be the widespread practice of rebating to exporters or exempting them from various "indirect" domestic taxes (such as "turnover," "value added," sales or other excise taxes) that are principal sources of revenue in these foreign countries. Under GATT, the rebating of such indirect taxes is permissible, but the rebating of "direct" taxes is prohibited. Because the U.S. Government relies principally on the direct income tax as a source of Federal revenue, the United States had not been in a position to provide U.S. manufacturers such as U.S. machine tool builders the same kind of export assistance in the form of tax refunds and credits. This has put U.S. machine tool builders at a great disadvantage in competing in world markets.

U.S. machine tool builders have also competed at a disadvantage, both at home and abroad, as a result of our Government's failure to keep pace with other industrial nations in providing comparable capital recovery allowances to encourage plant moderization and lower production costs. The need for reforms in this area is a matter we shall return to.

V. FACTORS INHIBITING EXPORTS

At the outset of this Statement, we noted that the United States is losing the balance of trade war on the export as well as the import front. This is not for want of trying. For years U.S. machine tool builders have energetically endeavored to promote export sales. In these efforts they have cooperated closely with the Commerce Department, other Government agencies, and they have utilized the services of this Association. Appendix H attached hereto includes a summary description of some recent Association activities aimed at assisting in the promotion and development of export trade. The Exhibits we are filing with the Committee also include examples of some of our more significant NMTBA publications directed to the export problem.

But those factors contributing in a major way to our import problems, especially high U.S. labor costs and ever-improving foreign technology, also operate to impede exports. There are other factors, too, that operate to keep U.S. machine tools out of foreign markets. The most important perhaps is the widespread existence of formidable non-tariff trade barriers.*

In our 1964 testimony before this Committee we provided an extensive catalogue of the principal discriminatory tariff and non-tariff barriers to the sale of U.S. machine tools abroad. An expanded and updated catalogue of such barriers is attached here as Appendix J.

As the Committee knows, non-tariff trade barriers are of diverse sorts. In many major machine tool markets U.S. machine tool exports are exposed to additional non-tariff border taxes. In France, for example, these include a "value added" tax of 20% of the duty paid value and a customs stamp tax. Germany imposes an import equalization tax of 10% on the C.I.F. duty paid value of U.S. machine tools sold into the country. Non-tariff import taxes in Italy include a 4% turnover tax and a 7.5% compensatory import tax.

But U.S. machine tool builders also encounter other obstacles to export expansion. In Japan the purchaser must obtain an import license to buy an American machine tool. Potential Japanese customers frequently find that such licenses, while not affirmatively denied, are simply not acted upon. A recent machine tool mission sponsored by the Commerce Department found conclusive evidence that just plain administrative inaction is regularly used by Japanese authorities as an effective non-tariff barrier against U.S. machine tool exports to Japan. A copy of the Mission's report is attached hereto as Appendix K.

The evidence is also conclusive that difficulties in obtaining export licenses from our own Government constitute at times an effective U.S. non-tariff trade barrier to expanded exports. It is well known that despite the interest and efforts of the administration in relaxing export controls to preserve traditional foreign markets for U.S. machine tools members of Congress intervened to prevent the Commerce Department from issuing export licenses which would have improved the U.S. balance of trade.

VI. SIGNIFICANCE OF IMPORT AND EXPORT TRENDS

Significant and long-term increases in imports and decreases in exports are a source of deep and readily understandable concern to machine tool builders. Figures 7–9 below, prepared by Lee H. Hill Consultants, economic consultants to NMTBA, show the close relationship between sales volume and profit in this high fixed-cost industry. The statistics on which these charts are based are composite industry statistics for 1966, a year in which U.S. machine tool builders operated at peak levels.* Total sales of the 105 machine tool companies included in the composite were about $1.4 billion; profits before taxes were 12.1% of sales, or $169 million.

Figure 7 and Figure 9 illustrate the effect that changes in volume would have on industry profits. Figure 7 shows that the industry's break-even point would have been approximately 73% of net sales. The industry's reduced profits at various volume levels between 100% and 73% of actual shipments and its losses at particular shipment levels below 73% appear from Figure 9. For example, a 10% drop in sales would have cut profits before taxes to about 8%; a further drop to a level 15% or 20% below actual sales would have meant a drop in profits before taxes to 5½ or 3%.

Figure 8 shows the relationship between particular types of cost and volume.

Against this background, and in the light of the inelastic nature of machine tool demand, the critical importance of imports and exports to industry health becomes apparent.

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*The inherent obstacles to expanded export trade in machine tools has been recognized by our Government officials abroad with responsibility for analyzing and promoting U.S. export opportunities. See, for example, the official State Department Airgram issued in early 1968 by our Embassy in Madrid. A copy is reproduced in Appendix I.

*The data were compiled by Ernst & Ernst; 1967 data are not yet available.

Figure 7 -- INDUSTRY PROFIT-VOLUME RELATIONSHIP

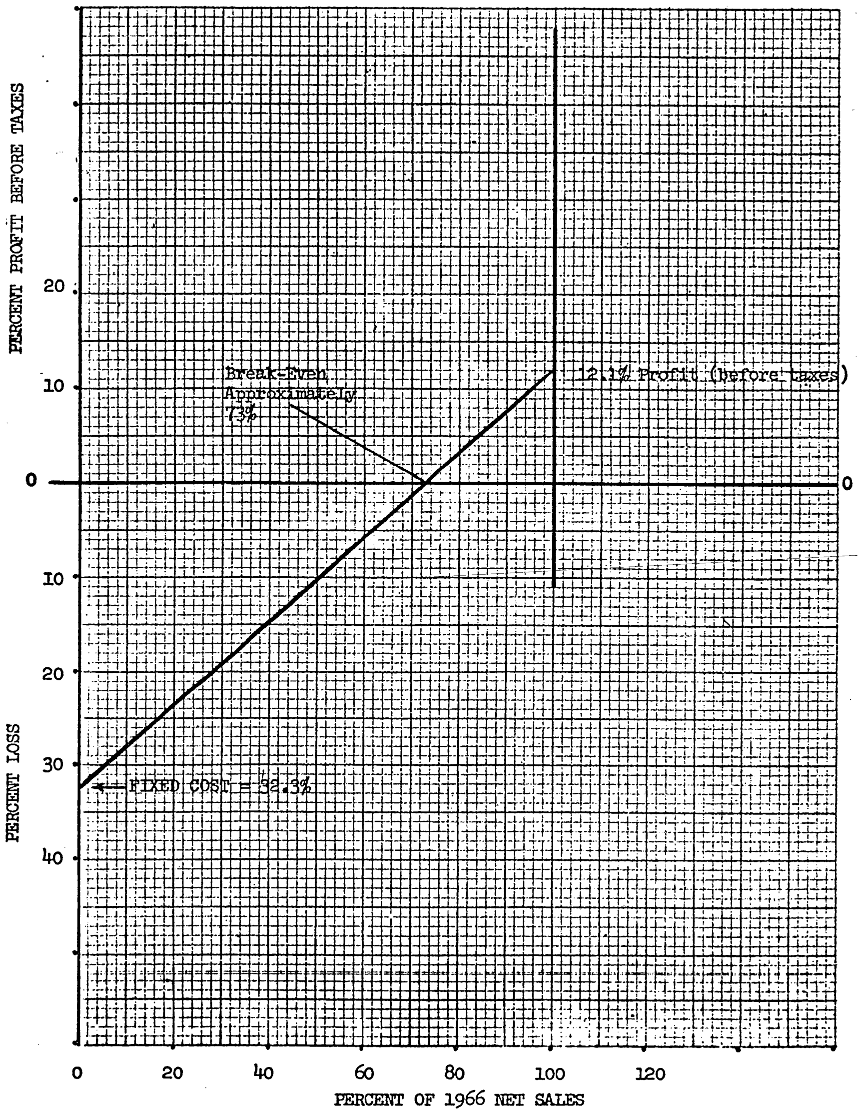


Figure 8 -- INDUSTRY COSTS - VOLUME RELATIONSHIPS

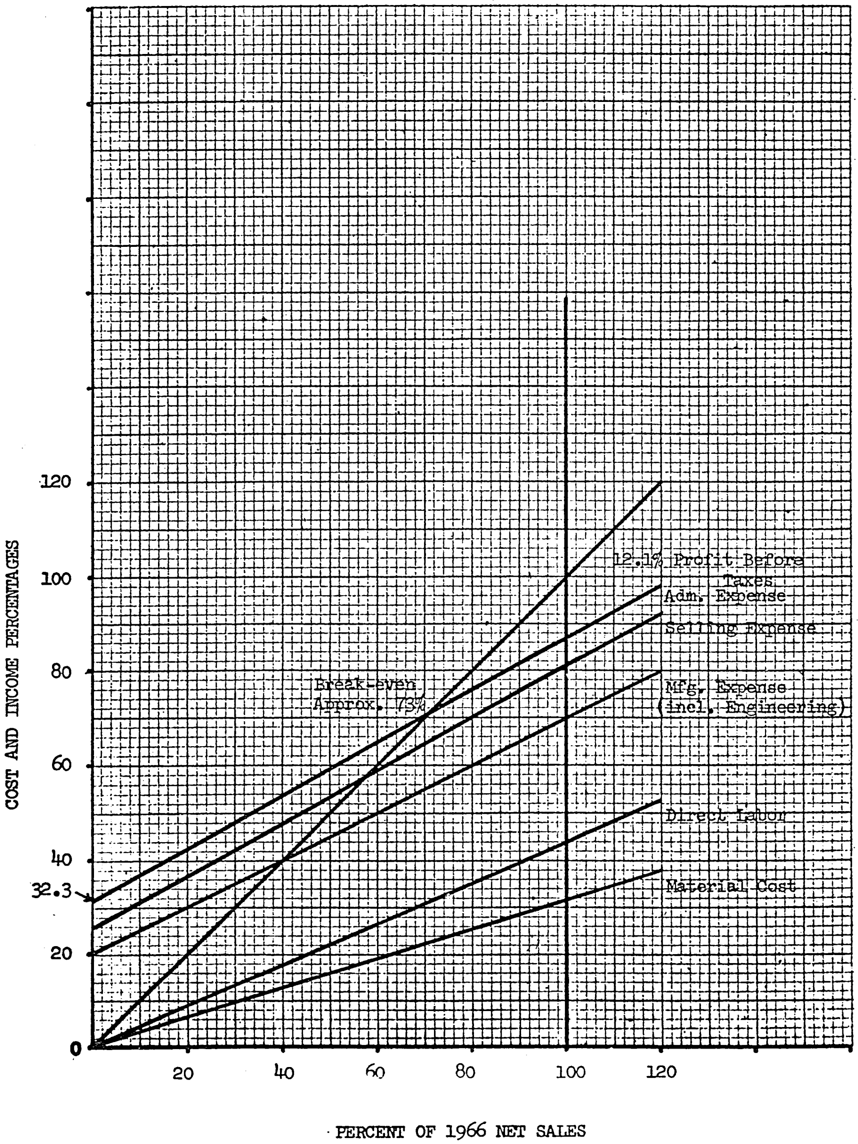
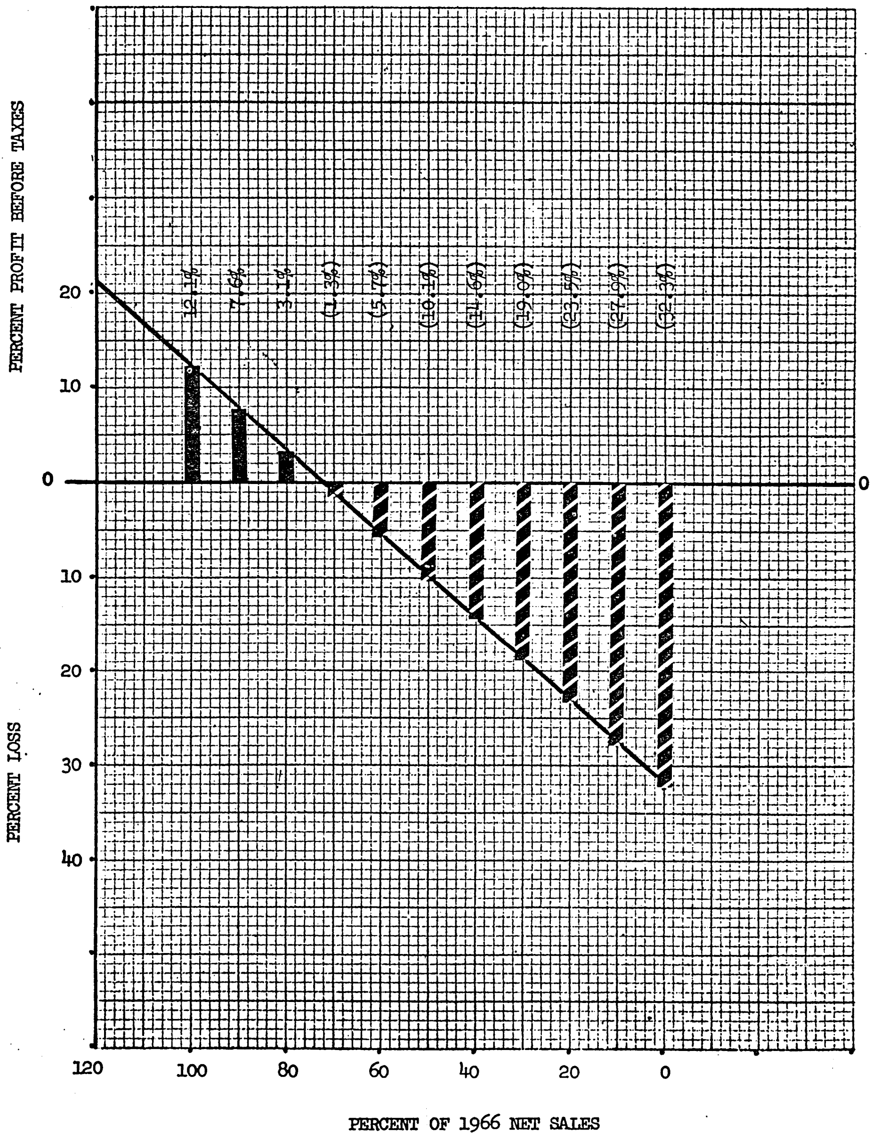


Figure 9 -- INDUSTRY PROFIT BEFORE TAXES AT VARIOUS SALES LEVELS



Machine tool shipments for the domestic market, which reached a peak in 1967, are expected to drop sharply in 1968 and 1969. Net new domestic orders have dropped from a monthly level of $157 million in 1966 to $106.1 million in 1967 to $96.1 million in the first four months of 1968. Subject to some variations that reflect periodic adjustments or "catching up," shipments generally follow new orders by about one year.

As already noted, exports are also expected to decline in 1968, with the monthly level of net new foreign orders dropping from $15.9 million in 1966 to $12.4 million in 1967.

Accordingly, wholly apart from the import problem, it can be seen that the years immediately ahead are likely to be difficult ones, with a severe threat to profits. When the added impact of imports is considered, it is apparent that something must be done. Any increase in the level of imports, either generally or with respect to particular segments of the industry, could seriously erode the health and stability of the domestic industry and quite possibly deprive it altogether of profits. Clearly research and development and necessary plant and equipment improvement would be imperiled.

VII. RECOMMENDATIONS CONCERNING IMPORTS

As we have seen (Table 6), annual imports of all machine tools have increased nearly five times in the last four years, from about $36 million in 1964 to nearly $180 million in 1967. During the same period imports of all machine tools as a percent of domestic consumption have increased from less than 4% to nearly 10%. For reasons we indicated, these increases are alarming. We urge as a minimum that the United States make no further tariff concessions on machine tools beyond those already agreed to in the Kennedy Round.

We also have an additional proposal for positive remedial action—one characterized by what we believe is a practical and highly desirable flexibility.

As the data we have presented show, particular segments of our industry are already experiencing serious difficulty as a result of imports. The severe pain is present, not merely anticipated. On a dollar basis imports of milling machine in 1967 exceeded 12% of domestic consumption. Imports of lathes exceeded 13% of domestic consumption, with the figure twice that on a unit basis. On a dollar basis, imports of boring machines in 1967 exceeded 15% of domestic consumption and on a unit basis the figure was more than twice as high. Further, we believe that within certain subcategories of these basic machine tool classifications, foreign penetration is very significantly greater.

Such levels of foreign penetration are not in the national interest. If realistic relief must await an across-the-board industry showing of present injury, irreparable damage will have been done to major and vitally important segments of the industry.

Accordingly, we propose that consideration be given to the adoption of a system of selective import surcharges under which imports of specific categories of machine tools would be subjected to additional levies when imports reached levels considered inimical to the best long term interests of the United States. We suggest to the Committee that it is undersirable, from the standpoint of the country as a whole, for imports of any major category of machine tools to exceed 10% of domestic consumption.

While the precise amount of the surcharge or the mechanics of its imposition are matters on which persons outside the machine tool industry will of course have views, we would suggest as a starting point for consideration an arrangement under which an import surcharge would be imposed where imports of that particular category of machine tool exceeded 10% of domestic consumption during a prior base period. The basic categories we have in mind are the eight categories for which import and export figures are currently available—(1) metal forming machines, (2) gear cutting and hobbing machines, (3) drilling machines, (4) lathes (except vertical turret lathes), (5) grinding machines, (6) milling machines, (7) boring machines (including vertical turret lathes) and (8) other types of metal cutting machines. We would suggest that the Bureau of the Census FT 135 import statistics and M35W export statistics be used as the basis for determining imports as a percent of consumption—"consumption" of course being defined as domestic shipments plus imports less exports.

For the base period we would suggest the use of a moving three year period under which, for example, surcharges in 1970 would be based on imports as a percent of consumption during the 1967–69 period and surcharges in 1971 would be based on imports as a percent of consumption during the period 1968–70.

However, because certain segments of our industry already face serious difficulty and because this difficulty has made its appearance with relative suddeness, we would not include years prior to 1967 in the base period. Thus, as we would see the import surcharge in operation, 1968 surcharges would be based on imports as a percent of consumption in 1967 alone and 1969 surcharges would utilize a two-year base period consisting of 1967 and 1968.

For reporting and administrative purposes, there would have to be a certain time lag, possibly six months, between the close of the base period and the effective date of the surcharge. Subject to the recommendations of the Commerce and Treasury Departments and other interested agencies of Government, we would envisage a base period ending on June 30, with the annually revised surcharge to become effective the following January 1.

As for the amount of the surcharge, we would propose for consideration, for the first five years, a 3% ad valorem surcharge for each percentage point by which imports of the category involved exceeded 10% of consumption up to 15%, and a 4% surcharge for each percentage point after that, with an absolute surcharge ceiling of 50% ad valorem.

It is possible that our surcharge proposal might be viewed as an emergency measure to meet an immediate and critical problem for our industry and our country. We are not advocating a policy of rigid and permanent tariff protection. Accordingly, we would hope that the surcharge could be phased out over, say, a 15 year period. Under such a plan the ad valorem surcharges of 3% and 4% could perhaps be reduced to 2% and 3% during the second five-year period and to 1% and 2% during the third five-year period, with the 50% ceiling being reduced to 35% and 20% during the second and third five-year periods. Under such a plan, whose application to three TSUS classifications of machine tools is graphically illustrated in Figure 10 on the following page, the machine tool industry would be fully exposed to the then existing basic tariff structure after 15 years.

Ideally, in our view, a system of selective import surcharges like that we propose would be based on a more refined system of product classifications than the eight basic categories we propose to be utilized. As already noted, however, sufficiently reliable import figures are not available with respect to more refined categories than the eight noted above. Should such figures become available, we might well recast our proposal to correspond to the opportunities presented by the availability of such figures. In this connection, on March 15, 1968, this Association formally requested the Tariff Commission's Committee for Statistical Annotation of Tariff Schedules to extend the categories of machine tools on which statistical data are collected and reported from eight to 33 categories. A copy of our request, which we view as a matter of vital importance to the machine tool industry, is attached as Appendix L.

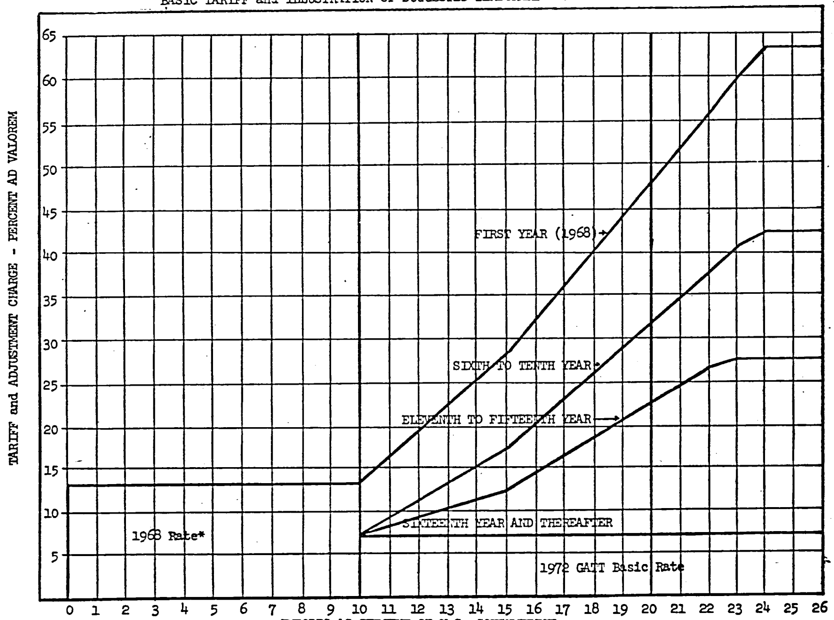
We do not, however, consider our present proposal for import surcharges as dependent on the availability of ideal statistical reports. Even in the absence of such reports we hope the Committee will give serious consideration to our proposal, which is based on product classifications for which official import and export figures are currently available. The Committee should evaluate it not only in the light of the evidence we have presented but that presented by other industries as well. It is possible that the approach suggested may have relevance not only for machine tools but also for other sectors of American industry.

VIII. RECOMMENDATIONS CONCERNING EXPORTS

The efforts we have made to promote exports and the difficulties we have encountered have already been noted. Net new foreign orders reported by NMTBA declined from $231 million in 1964 to $191 million in 1966, and to $149 million in 1967, the lowest level since 1959. If the United States machine tool industry, already at a cost and price disadvantage, is to compete effectively in world markets, a more realistic and helpful approach by the U.S. Government is needed.

Perhaps the most helpful action our Government could take to promote exports would be to turn to indirect taxation as a more important source of Federal revenues. We have already noted the export benefits that accrue to our foreign competitors by virtue of the tax rebates, refunds, and exemptions granted to them with respect to exported machine tools. If our Government were in a position to exempt U.S. exports from the Federal tax base in the same manner, our exports would of course become more competitive in world markets. As noted, however, under GATT the Government is apparently not in a position to grant similar relief from the "direct" tax burden borne by exports in the form of the Federal corporate income tax.

Figure 10 -- LATHES, GRINDING MACHINES and OTHER METAL CUTTING MACHINE TOOLS
BASIC TARIFF and ILLUSTRATION of SUGGESTED TEMPORARY ADJUSTMENT CHARGES



*The 1968 rate of 13 percent is scheduled to drop to 7.5 percent by 1972

The United States should also press for the elimination of preferential and discriminatory tariffs and non-tariff trade barriers abroad. As in 1964, this is today of critical importance to our ability to expand or even maintain our machine tool export markets. The assurances made by our Government prior to the Kennedy Round that the removal of foreign non-tariff restrictions would be a condition of any tariff concessions by the U.S. in the GATT negotiations have not yet been implemented.

Our export control procedures should be modified to provide advice and assurances to potential exporters, in advance of actual sales, as to whether an export license will be issued. Machine tool builders believe that unwarranted political interference by the Congress in the export controls program has caused the loss of many machine tool contracts that could have immeasurably helped out balance of trade and payments problems.

Expanded financing assistance for export sales should be made available for machine tool sales. American companies, operating within the limitations of traditional private financing arrangements, have not been able to meet the extremely liberal credit terms offered by our foreign competitors with the backing of their governments. For example, one potential sale of $8 million to $10 million worth of machine tools and related tools, for placement in Brazilian vocational and technical schools, was recently lost by us to Iron Curtain producers because we could not arrange for adequate long-term credits. In some cases, even where the terms of the credit arrangements are adequate, foreign sales are lost because a firm credit commitment cannot be obtained at a sufficiently early stage in the negotiation.

Expansion of East-West trade would substantially increase the export of U.S. machine tools and prevent foreign competitors from continuing to preempt these important markets. However, the NMTBA decided a number of years ago that expansion of East-West trade involves a military and diplomatic policy decision that only the Government can make in the interest of national security. The continuing controversy between the Executive and Legislative branches which has precluded consistent policy decisions and left only uncertainty for U.S. industry must be resolved. The lack of any consistent policy and the imposition of unreasonable restrictions on credits and guarantees has meant that important markets have gone by default to our international competitors.

The Government should also continue to develop and institute export programs, such as the direct cooperation recently provided by the State and Commerce Departments in certain potential market areas (*e.g.*, Israel and Pakistan), and the program initiated in 1968 for cooperative export market development through joint export associations.

We believe that the Congress might also consider making available to exporters generally the tax advantages that now accrue under the Western Hemisphere trading corporation provisions of the Internal Revenue Code to those exporting to Central and South American countries. Considering our nation's balance of payments problem, the tax incentives now offered to promote Western Hemisphere trade could appropriately be extended to promote all export commerce.

There is one other important matter we think it appropriate to comment on before this Committee. Just as the tax laws of foreign nations aid our foreign competitors in permitting them to receive from their governments export rebates and subsidies, so foreign tax laws assist our competitors by providing them far more advantageous capital recovery allowances in connection with their efforts to modernize plant and equipment and enjoy the production savings made available by our advancing technology.

We firmly believe that our only hope of expanding or even maintaining our traditional export markets for high labor content products such as machine tools lies in the accelerated modernization of our domestic industrial plant. This can only be done with labor-saving machine tools and other production equipment of the most advanced technology.

The prospect for this would be bleak indeed if this Committee and the Administration had not recognized in 1962 that without realistic tax depreciation and capital recovery allowances comparable to those of other industrial nations there can be no generation of the cash flow and profits so necessary to facilitate modernization and low cost production.

Despite the enactment of the 7% investment credit and the adoption of the Depreciation Guidelines in 1962, however, the United States has not kept pace with other industrial nations in providing the capital recovery allowances that would give U.S. industry with high labor content products some chance of being competitive in world markets—or even, for that matter, in our own domestic market.

There must be a further liberalization, and perhaps even more important, some assurance to U.S. industry in its long-range planning that these capital recovery allowances and incentives will not be periodically turned on and off as the political winds and economic forecasts change direction. Our depreciation allowances must be grounded in permanent law, not just in regulatory guidelines that are constantly subject to administrative change or even withdrawal.

Unlike the present Guidelines the law must be uncomplicated, understandable and precise. It must not be conditioned on stringent and complex tests such as the "reserve ratio test" that taxpayers generally find impossible to meet or even to understand.

It has taken our country too long to learn that favorable balances of trade and international payments depend to a very considerable extent on providing in the Federal tax structure the same capital recovery allowances and incentives to U.S. industry that our foreign competitors receive from their governments. This may require once again a reexamination of our traditional, and even threadbare, tax accounting and depreciation concepts, as it did in the case of the 7% credit. But our recent experiences with this novel credit and with 60-month amortization in wartime and emergency periods have proved that this is all to the good.

* * * * * * *

These hearings on our balance of trade problems are most timely. The U.S. machine tool industry is finding it increasingly difficult, and in some cases impossible, to compete at home and abroad with aggressive and technologically competent European and Japanese builders. While there are numerous aggravating circumstances, the problem is primarily the result of two factors—first, the high labor content of machine tools, which often accounts for as much as 50% of total product value; second, the tremendous wage disparities which exist between this country and other machine tool producing nations (*e.g.*, Japan where average hourly compensation is less than one-sixth that of U.S. workers) and which are constantly widening as a result of inflationary wage pressures in the United States.

Already segments of the industry are in trouble, and the time is now to find solutions for our import-export problems if we are to avoid the threatened atrophy of this essential industry.

We appreciate this opportunity to present our views and, to the extent that we are able, we will be pleased to supply additional information that the Committee may wish to consider in connection with its investigation and deliberations.

LATHES

Shipments, Imports, Exports and Consumption, By Units, 1964 - 1967
(Excludes machine tools with an average value of under $1,000)
(Number of units)

	Number of Facil-ities	1967					1966					1965					1964				
		Ship-ments	Import [1]	Export	Consump-tion	Imports as % of Consump-tion	Ship-ments	Imports [1]	Exports	Consump-tion	Imports as % of Consump-tion	Ship-ments	Imports [1]	Exports	Consump-tion	Imports as % of Consump-tion	Ship-ments	Import [1]	Export	Consump-tion	Imports as % of Consump-tion
GRAND TOTAL	60	21,087	8,658	721	29,024	29.8	19,008	7,705	560	26,153	29.5	15,481	3,878	635	18,724	20.7	12,881	2,933	947	14,867	19.7
Manufacturing and toolroom lathes up to and including 16" swing over cross slide	13	11,947	5,779	246	17,480	33.1	10,812	4,885	144	15,553	31.4	8,365	1,980	160	10,185	19.4	6,609	1,422	291	7,740	18.4
Turret, bench and floor, light duty type, saddle and ram type	11	3,149	487	100	3,536	13.8	3,140	447	90	3,497	12.8	2,610	271	77	2,804	9.7	2,061	195	100	2,156	9.0
Automatic chucking, single and multiple spindle	16	2,164	393	116	2,441	16.1	1,947	329	103	2,173	15.1	1,766	215	150	1,831	11.7	1,442	139	266	1,315	10.6
Screw (bar) machines	9	2,611	404	130	2,885	14.0	2,218	301	116	2,403	12.5	1,509	128	102	1,535	8.3	1,482	109	150	1,441	7.6
All other lathes, including manufacturing and toolroom lathes 17" and over, automatic between center, T-lathes, etc.	30	1,216	1,595 [2]	129	2,682	59.5	891	1,743 [2]	107	2,527	69.0	1,231	1,284 [2]	146	2,36[illegible]	54.2	1,287	1,068 [2]	140	2,215	48.2

1 Excludes imports from all countries other than Brazil, Czechoslovakia, France, Italy, Japan, United Kingdom and West Germany. In 1967, the "excluded imports" amounted to 6,996 units valued at $7.5 million with an average unit value of $1,100.

2 Includes imports from Brazil, Czechoslovakia, France, Italy, Japan, United Kingdom and West Germany of "all other types" and some 16" and under engine lathes, automatic chucking lathes, etc. - imports where available information did not permit identification and classification by specific types. Excludes imports from all other countries - see footnote 1

SOURCE:
Shipments and exports, Current Industrial Reports, Metalworking Machinery (series M-35-W), Import units estimated by the Metalworking Equipment Division based on data published by the Bureau of Census, official trade reports of foreign countries and data obtained from industry and government sources.

NOTE: These data were prepared by the Metalworking Equipment Division, Business and Defense Services Administration, on the basis of Current Industrial Reports, Metalworking Machinery (Series M 35 W). Import Values estimated by the Metalworking Equipment Division based on data published by the Bureau of the Census, Official Trade Reports of Foreign Countries, and data obtained from Industry and Government sources.

The National Machine Tool Builders' Association and various member companies assisted in the development of these data and verified them to the extent possible from information available to the Association.

Appendix B

LATHES

Shipments, Imports, Exports and Consumption, By Value, 1964 - 1967
(Excludes machine tools with an average value of under $1,000)
(Value in millions of dollars)

	Number of Facilities	1967					1966					1965					1964				
		Shipments	Import[1]	Export	Consumption	Imports as % of Consumption	Shipments	Import[1]	Export	Consumption	Imports as % of Consumption	Shipments	Import[1]	Export	Consumption	Imports as % of Consumption	Shipments	Import[1]	Export	Consumption	Imports as % of Consumption
GRAND TOTAL	60	330.1	40.2	17.6	352.7	11.4	281.5	29.9	17.2	294.2	10.2	230.0	11.4	19.7	221.7	5.1	193.7	6.6	27.8	172.5	3.8
Manufacturing & toolroom lathes, up to and including 16" swing over cross slide	13	57.4	----	0.9	-----	----	50.5	----	0.5	-----	----	39.6	----	0.8	-----	---	32.9	---	1.4	-----	---
Turret, bench & floor, light duty type, saddle and ram type	11	41.0	----	1.6	-----	----	35.5	----	1.1	-----	----	30.7	----	1.0	-----	---	19.6	---	1.1	-----	---
Automatic chucking, single & multiple spindle	16	103.7	----	7.6	-----	----	89.9	----	7.5	-----	----	83.1	----	9.6	-----	---	71.4	---	15.5	-----	---
Screw (bar) machines	9	70.1	----	4.5	-----	----	60.6	----	4.6	-----	----	39.1	----	3.3	-----	---	35.7	---	5.1	-----	---
All other lathes, including manufacturing & toolroom lathes, 17" and over, automatic between center, T-lathes, etc.	30	57.9	----	3.0	-----	----	45.0	----	3.5	-----	----	37.5	----	5.0	-----	---	34.1	---	4.7	-----	---

1 Excludes imports from all countries other than Brazil, Czechoslovakia, France, Italy, Japan, United Kingdom and West Germany. In 1967, the "excluded imports" amounted to 6,996 units valued at $7.5 million with an average value of $1,100.

SOURCE:
Shipments and exports, Current Industrial Reports, Metalworking Machinery (Series M 35 W), imports, Bureau of Census, excluding the category "all other". The reported average unit value of the "all other" group was under $1,000.

NOTE:
These data were prepared by the Metalworking Equipment Division, Business and Defense Services Administration, on the basis of Current Industrial Reports, Metalworking Machinery (Series M 35 W). Import values estimated by the Metalworking Equipment Division based on data published by the Bureau of the Census, Official Trade Reports of Foreign Countries, and data obtained from Industry and Government sources.

The National Machine Tool Builders' Association and various member companies assisted in the development of these data and verified them to the extent possible from information available to the Association.

Appendix C

BORING MACHINES

Shipments, Imports, Exports and Consumption, by Units, 1964 - 1967
(Excludes machine tools with an average value of under $1,000)
(Number of units)

	Number of Facil-ities	1967					1966					1965					1964				
		Ship-ments	Import	Export	Consump-tion	Imports as % of Consump-tion	Ship-ments	Import	Export	Consump-tion	Imports as % of Consump-tion	Ship-ments	Import	Export	Consump-tion	Imports as % of Consump-tion	Ship-ments	Import	Export	Consump-tion	Imports as % of Consump-tion
GRAND TOTAL	30	1,804	927	177	2,554	36.3	1,901	603	183	2,321	26.0	1,789	394	174	2,009	19.6	1,643	313	283	1,673	18.7
Horizontal boring, Drilling & milling; table type, rotary table type, floor type and all other horizontal boring	5	298	260	6	552	47.1	270	191	4	457	41.8	266	107	11	362	29.6	288	74	30	332	22.3
Vertical boring & turning mills (including vertical turret lathes)	5	186	68	4	250	27.2	190	52	8	234	22.2	147	17	7	157	10.8	109	17	15	111	15.3
Precision boring	12	498	77	33	542	14.2	537	51	35	553	9.2	551	29	29	551	5.3	425	19	73	371	5.1
Jig boring	7	593	171	23	741	23.1	598	116	19	695	16.7	513	67	24	556	12.1	461	42	43	460	9.1
Cylinder, car wheel, trepanning boring, automotive cylinder reboring and all other boring machines, N.E.C.	7	229	351[1]	111	469	74.8	306	193[1]	117	382	50.5	312	174[1]	103	383	45.4	360	161[1]	122	399	40.4

1 Includes boring machines of all kinds imported from countries other than West Germany, Italy, United Kingdom, Japan, Switzerland, Czechoslovakia and East Germany.

Source:
Shipments and exports, Current Industrial Reports, Metalworking Machinery (Series M-35-W), Import units estimated by the Metalworking Equipment Division based on data published by the Bureau of Census, official trade reports of foreign countries and data obtained from industry and government sources.

Note:
These data were prepared by the Metalworking Equipment Division, Business and Defense Services Administration, on the basis of Current Industrial Reports, Metalworking Machinery (Series M 35 W). Import values estimated by the Metalworking Equipment Division based on data published by the Bureau of the Census, Official Trade Reports of Foreign Countries, and data obtained from Industry and Government sources.

The National Machine Tool Builders' Association and various member companies assisted in the development of these data and verified them to the extent possible from information available to the Association.

Appendix D

BORING MACHINES

Shipments, Imports, Exports and Consumption 1964 - 1967, by Value
(Excludes machine tools with an average value of under $1,000)
(Value in Millions of Dollars)

	Number of Facilities	1967					1966					1965					1964				
		Shipments	Import	Export	Consumption	Imports as % of Consumption	Shipments	Import	Export	Consumption	Imports as % of Consumption	Shipments	Imports	Exports	Consumption	Imports as % of Consumption	Shipments	Import	Export	Consumption	Imports as % of Consumption
GRAND TOTAL	30	117.8	21.0	4.8	134.0	15.7	110.9	12.8	5.3	118.4	10.8	91.9	6.1	4.8	93.2	6.5	74.0	3.8	8.7	69.1	5.5
Horizontal boring, drilling & milling, table type, floor type and all other horizontal boring	5	38.9	7.1	1.1	44.9	15.8	35.8	4.5	1.0	39.3	11.5	28.8	---	1.6	----	---	29.2	---	2.4	----	---
Vertical boring and turning mills (including vertical turret lathes)	5	27.5	2.8	0.7	29.6	9.5	24.9	1.8	0.8	25.9	6.9	18.2	---	1.2	----	---	11.7	---	1.4	----	---
Precision boring	12	23.0	3.2	1.5	24.7	13.0	22.2	2.1	1.8	22.5	9.3	20.7	---	1.0	----	---	13.8	---	2.4	----	---
Jig boring	7	26.6	4.2	1.4	29.4	14.3	26.7	2.5	1.4	27.8	9.0	22.4	---	0.9	----	---	17.6	---	2.2	----	---
Cylinder car wheel, trepanning boring, automotive cylinder reboring and all other boring machines, N.E.C.	7	1.8	3.7[1]	0.1	5.4	68.5	1.3	1.9[1]	0.3	2.9	65.5	1.8	---	0.1	----	---	1.7	---	0.3	----	---

1 Includes boring machines of all kinds imported from countries other than West Germany, Italy, United Kingdom, Japan, Switzerland, Czechoslovakia and East Germany.

SOURCE:
Shipments and exports, Current Industrial Reports, Metalworking Machinery (Series M-35-W), Import values estimated by the Metalworking Equipment Division based on data published by the Bureau of Census, official trade reports of foreign countries and data obtained from industry and government sources.

NOTE:
These data were prepared by the Metalworking Equipment Division, Business and Defense Services Administration, on the basis of Current Industrial Reports, Metalworking Machinery (Series M 35 W). Import values estimated by the Metalworking Equipment Division based on data published by the Bureau of the Census, Official Trade Reports of Foreign Countries, and data obtained from Industry and Government sources.

The National Machine Tool Builders' Association and various member companies assisted in the development of these data and verified them to the extent possible from information available to the Association.

Appendix E

Summary Comparison of Quoted Selling Prices in the United States of Typical American-Built Machine Tools and Competing Foreign-Built Machine Tools

	Selling Price
Example 1.	
U. S. MACHINE TOOL Universal turret lathe, 2 1/2" bar capacity, motor and starter.	$ 21,095
FOREIGN MACHINE TOOL Hitachi Machinery Company, Ltd. (Japan) Hitachi Seiki 5 A Universal turret lathe, 2 1/2" bar capacity, motor and starter.	$ 13,400
Price Difference	$ 7,695
Percent Reduction	36.5%
Example 2.	
U. S. MACHINE TOOL Lathes comparable to those below.	
FOREIGN MACHINE TOOL Okuma Machinery Works, Ltd. (Japan) 17" lathe, 10 H.P., weight 5,600 pounds	$ 7,250
23" lathe, 10 H.P., weight 5,800 pounds	$ 8,500
Wasino Machine Company, Ltd. (Japan) 19" Wasino lathe with hardened ways, 10 H.P. D-1-6" spindle nose, weight 5,200 pounds	$ 6,000
Howa Sangyo Company Ltd. (Japan) 16" Howa Sangyo gap bed, 5 H.P., weight 3,300 pounds	$ 4,600
Percent Reduction	30.0%
Example 3.	
U. S. MACHINE TOOL 17" lathe	$ 7,000
FOREIGN MACHINE TOOL Mari Seiki (Japan) 16" lathe, comparable to above	$ 4,495
Price Difference	$ 2,505
Percent Reduction	35.9%

Example 4. — Selling Price

U. S. MACHINE TOOL
Heavy duty lathe, 38" swing, 100" length, 75 H.P. — $ 45,000

FOREIGN MACHINE TOOL
Okuma Machinery Works, Ltd. (Japan)
Heavy duty lathe, 37.4" swing, 96" length,
30 H.P., weight 25,000 pounds — $ 34,200

Price Difference	$ 10,000
Percent Reduction	24.0%

Example 5.

U. S. MACHINE TOOL
NC lathe — $ 76,191

FOREIGN MACHINE TOOL
Identical NC lathe — $ 59,379

Price Difference	$ 16,812
Percent Reduction	22.1%

Example 6.

U. S. MACHINE TOOL
Lathe, 20 1/2" swing, 12 H.P. weight 7,150 pounds — $ 13,586

FOREIGN MACHINE TOOL
H. E. S. Machine Tool, Inc. (France)
H. E. S. 20 lathe, 20" swing, 12 H.P.,
weight 7,000 pounds — $ 8,812

Price Difference	$ 4,774
Percent Reduction	35.1%

Example 7.

U. S. MACHINE TOOL
Similar to below — $425,000 - $450,000

FOREIGN MACHINE TOOL
Tos Kurim (Czechoslovakia)
78" x 78" x 30' split table planer mill includes
power draw bar, readout, etc. with two 50 H.P.
heads, one vertical and one side head. — $345,000

Price Difference	$80,000 - $105,000
Percent Reduction	18.8% - 23.3%

Example 8.	Selling Price
U. S. MACHINE TOOL	
Planer miller comparable to below	$ 500,000
FOREIGN MACHINE TOOL	
Tos Kurim (Czechoslovakia) 30' planer miller with 6' table, bridge type, with two 30 H.P. heads	$ 360,000
Price Difference	$ 140,000
Percent Reduction	28%

Example 9.	
U. S. MACHINE TOOL	
Milling machine, weight 8,150 pounds, 10-3 H.P.	$ 23,980
FOREIGN MACHINE TOOL (Spain)	
Enterprise Corea F4UA Enterprise Corea milling machine, weight 9,200, 10-4 H.P.	$ 10,970
Price Difference	$ 13,010
Percent Reduction	54.3%

Example 10.	
U. S. MACHINE TOOL	
Milling machine, weight 8,150 pounds, 10-3 H.P.	$ 23,980
FOREIGN MACHINE TOOL	
Hitachi Machinery Company, Ltd. (Japan) Hitachi Seiki #3 ML milling machine, weight 10,100 pounds, 10-3 H.P.	$ 10,100
Price Difference	$ 12,880
Percent Reduction	53.7%

Example 11.	
U.S. MACHINE TOOL	
Milling machine, weight 6,700 pounds, 10-3 H.P.	$ 20,895
FOREIGN MACHINE TOOL	
Hitachi Machinery Company Ltd. (Japan) 4 MP Hitachi plain horizontal milling machine, weight 9,500 pounds, 10-3 H.P.	$ 14,100
Price Difference	$ 6,795
Percent Reduction	32.5%

Example 12.	Selling Price
U. S. MACHINE TOOL	
Milling machine, weight 10,000 pounds, 3 H.P.	$ 31,975
FOREIGN MACHINE TOOL	
Makino (Japan)	
Makino model KGNCP-70 NC vertical milling machine weight 3,520 pounds, 20-5 H.P.	$ 22,400
Price Difference	$ 9,575
Percent Reduction	29.9%

Example 13.	
U. S. MACHINE TOOL	
Milling machine, weight 8,150 pounds, 10-3 H.P.	$ 23,980
FOREIGN MACHINE TOOL	
Enterprise Corea (Spain)	
#4UA Enterprise Corea milling machine, weight 14,000, 15-4 H.P.	$ 13,825
Price Difference	$ 10,155
Percent Reduction	42.3%

Example 14.	
U. S. MACHINE TOOL	
Milling machine, weight 12,050 pounds, 20-5 H.P.	$ 37,980
FOREIGN MACHINE TOOL	
Hitachi Machinery Company, Ltd. (Japan)	
3 MK Hitachi Seiki milling machine, weight 16,700 pounds, 25 H.P.	$ 23,600
Price Difference	$ 14,380
Percent Reduction	37.9%

Example 15.	
U. S. MACHINE TOOL	
Milling machine, weight 11,775 pounds, 20-5 H.P.	$ 37,980
FOREIGN MACHINE TOOL	
Hitachi Machinery Company, Ltd. (Japan)	
4M Hitachi milling machine, weight 17,860 pounds 30-5 H.P.	$ 18,565
Price Difference	$ 19,415
Percent Reduction	51.1%

Example 16.	Selling Price
U. S. MACHINE TOOL	
Plain knee and column milling machine, weight 4,800 pounds, 5 H.P.	$ 17,250
FOREIGN MACHINE TOOL	
Hitachi Machinery Company, Ltd. (Japan) 2M Hitachi milling machine, weight 6,600 pounds, 7 1/2 - 2 1/2 H.P.	$ 12,130
Price Difference	$ 5,120
Percent Reduction	29.7%

Example 17.

U. S. MACHINE TOOL	
Plain knee and column milling machine, weight 5,350 pounds, 5 - 1 1/2 H.P.	$ 17,250
FOREIGN MACHINE TOOL	
Hitachi Machinery Company, Ltd. (Japan) 2 ML Hitachi Seiki milling machine, weight 7,000 pounds, 7 1/2 - 2 H.P.	$ 11,800
Price Difference	$ 5,450
Percent Reduction	31.6%

Example 18.

U. S. MACHINE TOOL	
Plain knee and column milling machine, weight 5,350 pounds, 5 - 1 1/2 H.P.	$ 17,250
FOREIGN MACHINE TOOL	
Reinhold Bohle (Germany) FW125 Reinhold Bohle milling machine, 7 1/2-1 1/2 H.P.	$ 13,200
Price Difference	$ 4,050
Percent Reduction	23.5%

Example 19.

U. S. MACHINE TOOL	
TR X 72", 11" swing, 72" between centers, 15 H.P., 17,425 pounds	$ 40,110
FOREIGN MACHINE TOOL	
Okuma Machinery Works, Ltd. (Japan) GPB 250 Grinder, 11" swing, 61" between centers, 15 H.P., 13,500 pounds	$ 24,500
Price Difference	$ 15,610
Percent Reduction	38.9%

Examples 20-26.

	Selling Price
U. S. MACHINE TOOL	
Centerless Grinding Machine, weight 8,100 pounds, 15-1 H.P.	$ 18,320
FOREIGN MACHINE TOOLS	
CLG2B Nippei (Japan), weight 7,500 pounds, 15-2 H.P.	$ 13,500
Price Difference	$ 4,820
Percent Reduction	26%
NK-18 Nippon Kenmaki (Japan), weight 6,100 pounds, 10-1 H.P.	$ 11,300
Price Difference	$ 7,020
Percent Reduction	38%
OC-18 Ohmiya (Japan), weight 6,600 pounds, 15-2 H.P.	$ 10,880
Price Difference	$ 7,440
Percent Reduction	40%
NPA-18 Accurate-Nippon (Japan), weight 6,600 pounds, 15-2 H.P.	$ 12,500
Price Difference	$ 5,820
Percent Reduction	31%
EE310 Estarta (Spain), weight 7,100 pounds, 15-2 H.P.	$ 7,450
Price Differance	$ 10,870
Percent Reduction	60%
OZ Multimat (German), weight 4,070,pounds, 10-1 H.P.	$ 12,400
Price Difference	$ 5,920
Percent Reduction	32%
MC-35 Malcus (Swëden), weight 5,700 pounds, 15-2 H.P.	$ 14,100
Price Difference	$ 4,220
Percent Reduction	23%

Examples 27-31.	Selling Price
U. S. MACHINE TOOL	
Cutter Grinder, weight 2,250 pounds, 1 H.P.	$ 6,650
FOREIGN MACHINE TOOLS	
C-40 Makino (Japan), weight 2,000 pounds, 3/4 H.P.	$ 4,500
Price Difference	$ 2,150
Percent Reduction	32%
35LA Tacchella (Italy), weight 1,690 pounds, 1 1/4 H.P.	$ 4,060
Price Difference	$ 2,590
Percent Reduction	39%
No. 5 Elliot (England), weight 1,876 pounds, 3/4-1/4 H.P.	$ 4,190
Price Difference	$ 2,460
Percent Reduction	37%
USL Pedersen (Denmark), weight 2,040 pounds, 1-1/4 H.P.	$ 3,880
Price Difference	$ 2,770
Percent Reduction	42%
Universa-Blohm (Germany), weight 1,940 pounds, 1 H.P.	$ 3,775
Price Difference	$ 2,875
Percent Reduction	43%

Examples 32-37.	
U.S. MACHINE TOOL	
Centertype Grinding Machine, weight 13,375 pounds, 15-1 1/2 H.P.	$35,420
FOREIGN MACHINE TOOLS	
16B Karstens (14x40) (Germany), weight 10,900 pounds, 10 H.P.	$23,630
Price Difference	$11,790
Percent Reduction	33%

FOREIGN MACHINE TOOLS (Cont'd)		Selling Price
AFC1000 Fortuna (14x40) (Germany), weight 10,000 pounds, 10-.8 H.P.		$ 25,410
	Price Difference	$ 10,010
	Percent Reduction	28%
KRS/10 Schaudt (10x30)(Germany), weight 11,100 pounds, 10-1 H.P.		$ 25,860
	Price Difference	$ 9,560
	Percent Reduction	27%
GPB-1000 Okuma (11x41.5)(Japan), weight 12,300 pounds, 15-2 H.P.		$ 26,630
	Price Difference	$ 8,790
	Percent Reduction	25%
RU250/1000 Gustina (10x40)(Italy), weight 6,720 pounds, 7-1 H.P.		$ 18,330
	Price Difference	$ 17,090
	Percent Reduction	48%
1030E Jones & Shipman (10x30)(England), weight 11,200 pounds, 10-2 H.P.		$ 28,180
	Price Difference	$ 7,240
	Percent Reduction	20%

Appendix F

SCHEDULE OF MACHINE TOOLS CURRENTLY
SUBJECT TO M-DAY POOL ORDER PROGRAM

GRINDERS

TYPE	SIZE		NO. OF UNITS
External, Cylindrical, Plain	under 6" swing	12" - 18" cc	23
" " "	6" - 12" "	18" - 36" cc	143
" " "	6" - 12" "	36" - 54" cc	68
" " "	6" - 12" "	72" - 90" cc	2
" " "	6" - 12" "	90" - 108" cc	2
" " "	6" - 12" "	108" - 126" cc	2
" " "	12" - 16" "	60" - 84" cc	1
" " "	12" - 16" "	84" - 108" cc	1
" " "	12" - 16" "	108" - 132" cc	1
" " "	16" - 20" "	11' - 16' cc	1
" " "	16" - 20" "	60" - 80" cc	5
" " "	20" - 28" "	16' - 22' cc	1
" " "	28" swing & over	under 10' cc	5
External, Cylindrical, Universal	20" swing & over	under 48" cc	12
" " "	20" swing & over	84" - 102" cc	5
" " "	under 12" swing	under 24" cc	56
" " "	under 12" swing	24" - 48" cc	24
" " "	12" - 16" "	under 36" cc	8
" " "	12" - 16" "	36" - 60" cc	48
" " "	12" - 16" "	60" - 84" cc	4
" " "	16" - 20" "	48" - 72" cc	10
" " "	16" - 20" "	72" - 96" cc	12
Roll Grinder	20" - 28" swing	10' - 16' cc	1
" "	28" swing & over	16' cc & over	1
Plain, Cylindrical, Auto. Feed	6' swing & over	18" - 30" cc	6
" " " "	6' swing & over	30" cc & over	7
Centerless	6" max. diameter		201
"	6" max. diameter & over		13
30° Angular Wheelhead	under 10" swing		25
" " "	10" swing & over		45
External, Cylindrical, Chuck	under 10" swing		1
" " "	10" - 20" "		1
Internal, Cylindrical, Mech. Feed	under 10" swing	under 12" stroke	5
" " Hyd. Feed	12" - 16" "	under 12" stroke	5
" " " "	16" - 20" "	under 12" "	16
" " " "	16" - 20" "	12" - 24" "	35
" " " "	28" - 42" "	12" - 24" "	9
" " " "	42" swing & over	12" - 24" "	6
External, Cylindrical, Automatic Sizing	under 12" swing	under 12" stroke	44
Combination, Internal & Face	16" - 24" swing	16" - 24" stroke	5

GRINDERS (Con't)

TYPE	SIZE		NO. OF UNITS
Planetary	24" max. whole diameter & over		1
Centerless	under 8" diameter		14
"	8" - 20" "		5
Surface Rotary Table, Horizontal Spindle	under 10" diameter		25
" " " "	16" - 30" diameter		4
Surface Rotary Table, Vertical Spindle	16" - 30" diameter		20
" " " "	30" - 48" "		109
" " " "	48" - 72" "		11
" " " "	72" diameter & over		10
Reciprocating Table, Horizontal Spindle, Hand Feed	under 12" length		159
" " " "	12" length		15
Reciprocating Table, Horizontal Spindle, Power Feed	18" - 24" len.	8" wid. & over	552
" " " "	24" - 48" "	8" - 12" wid.	99
" " " "	24" - 48" "	12" wid. & over	101
" " " "	48" - 72" "	12" - 16" wid.	45
" " " "	48" - 72" "	16" - 20" wid.	2
" " " "	48" - 72" "	20" wid. & over	2
" " " "	72" - 120" "	under 16" wid.	5
" " " "	72" - 120" "	16" - 20" wid.	3
" " " "	72" - 120" "	20" - 30" wid.	15
" " " "	72" - 120" "	30" wid. & over	3
" " " "	10' - 16' "	10" - 30" wid.	6
" " " "	10' - 16' "	20" - 48" wid.	13
" " " "	16' len. & over	30" - 48" wid.	1
Disc, Horizontal, Single Spd. Power Feed	20" - 30" diameter		10
Disk, Horizontal, 2-spindle, Hand Feed	under 16" diameter		9
" " "	16" - 20" diameter		17
Disk, Horizontal, 2-spindle, Power Feed	20" - 30" diameter		6
" " "	30" diameter & over		10
Horizontal, Double End, Hand	16" - 20" diameter		10
" " "	20" diameter & over		8

GRINDER (con't)

TYPE	SIZE		NO. OF UNITS
Disk, Vertical, Single Spindle	30" - 60" diameter		8
" " " "	60" diameter & over		3
Disk, Vertical, Multi_Spindle	18" - 24" diameter		9
Thread, External	under 6" diameter	18" - 36" cc	2
" "	6" diameter & over	under 24" cc	4
" "	6" " "	42" - 60" cc	4
Tool & Cutter, Universal	8" - 10" swing		110
" " "	10" - 12" "		50
" " "	12" & over		182
Tool & Cutter, Broach	under 60" len.		5
" " "	60" len. & over		5
Tool & Cutter, Drill	1/2" - 1" cap.		10
" " "	1" - 3" "		10
" " "	3" & over "		25
Tool & Cutter, Single Point	under 6" dia. wheel		6
" " "	14" dia. wheel & over		6
Tool & Cutter, Face Mill	under 26" dia.		6
Gear Cutter	under 2" dia.		10
Engraving Cutter	5" dia. & over		13
Keller Cutter			20
Drill Web Thinner			10
Race Radius, External	under 10" dia.		10
" " Internal	under 16" dia.		20
Form Grinder	under 8" dia.		20
Optical Grinder	under 8" len. of work		5
Jig Grinder, Automatic Positioning	36" table travel & over		9

LATHES

TYPE	SIZE		NO. OF UNITS
Bench, Plain	8" - 12" swing	under 18" cc	88
" Screw Cutting	10" - 12" "	30" cc & over	56
Floor, Engine, Light Duty	under 12" swing	30" cc & over	5
" " " "	12" swing	20" - 30" cc	150
" " " "	12"-- 14" swing	30" - 48" "	251
" " " "	14" - 16" "	48" - 60" "	41
" " " "	14" - 16" "	30" - 48" "	168
" " " "	16" - 18" "	60" - 96" "	15
" " " "	16" - 18" "	under 36" "	150
" " " "	16" - 18" "	48" - 60" "	129
" " " "	16" - 18" "	60" - 96" "	40
" " " "	20" - 25" "	72" - 96" "	24
" " " "	25" - 35" "	80" - 120" "	5
Floor, Toolroom, Light Duty	under 12" swing	20" - 30" cc	24
Floor, Engine, Standard "	16" - 24" swing	54" - 96" cc	272
" " " "	16" - 24" "	under 54" cc	30
Floor, Toolroom, " "	under 16" swing	under 54" cc	95
Floor, Engine, Heavy Duty	under 16" swing	54" - 102" cc	125
" " " "	16" - 20" "	54" - 102" cc	24
" " " "	24" - 30" "	under 96" cc	24
" " " "	24" - 30" "	96" - 144" cc	9
" " " "	30" - 40" "	9' - 15' cc	9
" " " "	40" - 50" "	under 10' cc	4
Floor, Engine, Heavy Duty, N/C	16" - 20" swing	54" - 102" cc	12
" " " "	20" - 24" "	under 96" cc	94
Automatic, Form Turning	under 16" swing	under 54" cc	26
" " "	under 16" "	54" - 76" cc	7
" " "	20" - 24" "	under 96" cc	12
" " "	24" - 36" "	under 96" cc	38
" " "	24" - 36" "	under 144" cc	28
Hollow Spindle	under 24" swing	12" diameter	5
" "	24" - 30" "	13" "	2
" "	30" swing & over	14" " & over	2
Light Duty w/Turret Attachment	8" - 10" swing	under 3/4" collet	10
" " "	8" - 10" "	3/4" collet & over	88
" " "	10" - 12" "	under 3/4" collet	10

LATHES (Con't)

TYPE	SIZE		NO. OF UNITS
Turret, Ram Type, Universal	1 1/2" - 2" Bar Cap.		46
" " " "	2" - 2 1/2" " "		21
" " " "	2 1/2" Bar Cap. & over		72
Turret, Saddle Type, Standard, Fixed Center	under 2 1/2" Bar	under 20" swing	10
" " " "	6" - 8" Bar	under 8" "	10
" " " "	10" Bar & over	under 30" "	5
" " " "	10" Bar & over	30" swing & over	5
Turret, Cross Sliding, Saddle	under 3" Bar	20" - 25" swing	6
" " " "	3" - 4 1/2" Bar	25" swing & over	18
" " " "	4 1/2" - 5" "	under 25" swing	14
Chucking, Single Spindle, Horizontal, Automatic, Platen	under 16" swing		105
" " " "	16" - 20" "		15
Chucking, Single Spindle, Horizontal, Automatic, Turret	under 25" swing		120
Chucking, Multi-Spindle, Horizontal, Automatic	30" swing & over	6 spindles	44
" " "	30" swing & over	8 spindles	24
Chucking, Multi-Spindle, Vertical, Automatic	8" - 16" chuck diameter	6 - 8 spindles	5
Automatic, Between Centers Chucking, Single Spindle	6" - 9" swing	under 30" cc	4
" " "	6" - 9" "	60" cc & over	2
" " "	12" -16" "	under 30" cc	5
" " "	12" - 16" "	30" - 54" cc	2
" " "	16" - 24" "	under 30" cc	2
" " "	16" - 24" "	30" - 48" cc	2
Automatic Screw Machine, Bar, Horizontal, Single Spd.	1" - 1 1/2" Bar cap.		32
" " "	1/2" - 1" " "		75
" " "	1 1/2" - 2" " "		75
" " "	2" - 3" " "		35
" " "	4" - 5" " "		2
" " "	5" - 6" " "		2
Automatic Screw Machine, Bar, Horizontal, 6 Spindles	under 1" Bar cap.		40
" " "	1" - 1 1/2" Bar cap.		74
" " "	1 1/2" - 2" " "		12
" " "	2" - 2 1/2" " "		25
" " "	2 1/2" - 3" " "		23
" " "	3" & over Bar		16

LATHES (con't)

TYPE		
Automatic Screw Machine,		
Bar, Horizontal, 2 Spindle	2" Bar & over	5
" " 4 Spindle	4" - 6" Bar cap.	1
" " " "	6" Bar & over	1
" " 8 "	under 1 1/2" Bar cap.	11
" " " "	1 1/2" - 2" " "	9
" " " "	2" Bar & over	9
Automatic Chucking Lathe N/C		12

BROACHES

TYPE	SIZE		NO. OF UNITS
Horizontal, Single Ram	5 - 10 ton	48" stroke & over	6
" " "	10 - 15 "	under 60" stroke	1
" " "	25 - 35 "	" 72" "	1
" " "	25 - 35 "	over 72" "	2
" " "	35 - 50 "	" 72" "	1
" " "	50 tons & over	" 72" "	1
Surface, Hydraulic, Single Ram	under 15 tons	120" stroke & over	1
" " "	15 - 30 tons	120 " " "	2
Horizontal, Continuous	10 - 20 tons	60" stroke & over	16
Horizontal, Electro Mechanical Drive, Single Ram		120" - 240" stroke	8
Pull Down	15 - 20 ton	48" stroke & over	8
" "	20 - 25 "	48" " "	1
" "	35 - 50 "	60" " "	5
" "	50 ton & over	60" " "	1
Pull Up	10 - 15 ton	36" " "	2
" "	10 - 15 "	48" " "	5
" "	25 - 35 "	60" " "	1
" "	25 - 35 "	under 60" stroke	1
Vertical, Surface, Hydraulic, Single Ram	10 - 15 ton	48" stroke & over	4
" " "	15 - 20 "	48" " "	15
" " "	20 - 25 "	48" " "	2
" " "	25 - 35 "	60" " "	8
Vertical, Surface, Hydraulic, Double Ram	10 - 15 ton	under 48" stroke	1
" " "	15 - 20 "	48" stroke & over	7
" " "	25 - 35 "	60" " "	5
Vertical, Electro Mechanical Drive, Single Ram	75 H.P.	72" - 100" stroke	5
Vertical, Electro Mechanical Drive, Double Ram	75 - 100 H.P.	72" - 100" stroke	8

MILLING

TYPE	SIZE		NO. OF UNITS
Bench Type, Horiz. Hand Feed	10" - 14" table travel		20
" " " Power Feed	10" - 14" " "		12
" " " " " Universal	10" - 14" " "		18
" " Vertical Hand Feed	10" - 16" " "		10
Knee Type, Floor, Horiz. Plain	under 28" table travel		10
" " " " "	28" - 34" " "		188
" " " " Universal	28" - 34" " "		190
" " " " "	34" - 42" " "		8
" " " Vert. "	under 28" " "		5
" " " " "	28" - 34" " "		162
Automatic & Manufacturing	18" table travel & over		179
Combination Horiz. & Vert.	28" - 36" table travel		10
Ram Type, Swivel Head, Plain Table	under 28" table travel		140
" " "	28" - 34" " "		279
" " "	34" & over " "		38
" " Universal Table	34" & over " "		8
Bed Type, Horizontal, Plain table	8" - 18" table travel		10
" " "	18" - 30" " "		28
" " "	30" - 48" " "		61
Combination Milling & Planing, Double housing	20' & over table travel		4
Profiling & Duplicating, Horizontal	24" - 48" table travel	1 spindle	48
Die Sinking, Universal	under 20" table table		20
Thread Miller	9" work diameter		3
" "	12" " "		4
Engraving - Pantograph, 2 dimension, Floor			33
" " 3 "			20

BORING

TYPE	SIZE		NO. OF UNITS
Jig Boring - N/C			12
Horizontal Boring,			
Drilling & Milling, Table	3" - 4" spindle	7' - 9' bed	45
" " "	5" - 6" "	under 9' "	5
" " Floor	under 4" "	9' - 11' runway	5
" " "	5" - 6" "	under 13' runway	5
Boring & Turning, Vertical	36" - 52" swing		46
" " "	52" - 72" "		24
Boring, Precision			
Horiz. Bridge, Single End	under 8 1/2"	under 18" Table Travel	47
" " "	" 8 1/2"	over 18" " "	22
" " "	over 8 1/2"	under 18" " "	8
" " "	" 8 1/2"	over 18" " "	9
Boring, Way Type, Vertical	10" - 13" swing	2 spindles	10
Jig Boring, Horizontal	24" - 48" Table Travel		2
" "	48" - 72" " "		6
" "	72" - 96" " "		8
" "	96" - 120" " "		8
" "	120" & over " "		1
" Vertical	30" - 60" " "		133

DRILLING MACHINES

TYPE	SIZE			NO. OF UNITS
Drilling - N/C				28
Sensitive, Box Column	under 1" cap.	12" - 22" swing	1 spindle	84
" " "	"	16" - 24" "	"	595
" " "	1" cap. & over	16" - 24" "	"	54
Upright " "		24" - 28" "	"	45
" " "		28" & over "	"	25
" " "		28" & over "	3 spindle	7
Heavy Manufacturing		under 24" swing	1 spindle	40
Indexing, Turret Head	under 1" drill cap.	Under 30" swing	6 spindles	34
Radial, Plain	4' - 5' arm	under 13" column		110
" "	3' - 4' "	9" column & over		10
" "	6' - 8' "	19" column & over		60
" "	10' arm & over	26" " "		12
Sensitive, Adjustable Joint	12 - 24 spindles			23
Standard, Adjustable Joint	16 - 40 spindles			12

PLANERS

TYPE	SIZE	NO. OF UNITS
Openside, Hydraulic	12' - 16' stroke	6
Shaper - Planer	under 66" stroke	23
" "	120" stroke & over	18

MECHANICAL PRESSES - POWER DRIVEN

TYPE	SIZE	NO. OF UNITS
Compacting Press	100 - 200 tons	22
" "	500 "	9
" "	1,000 "	1

MISCELLANEOUS

TYPE	SIZE	NO. of UNITS
Shaper, Horizontal, Hydraulic	24" stroke & over	22
" Vertical "	20" - 36" stroke	7
" " "	36" - 48" "	9
Honing & Lapping, Internal, Horizontal	under 6" bore	16
Lapping, Flat surface only	24" - 36" diameter	2
Lapping, Combination flat surface, Cylindrical	under 24" diameter	6
Hack saw	10" - 14" work cap.	40
"	14" & over " "	33
Cut Off Band Saw, Upright	18" - 30" work cap.	2
" " Horizontal	8" & over " "	23
Wafering & Slicing		8
Contour Band Saw	20" - 30" throat	12
" " "	30" & over "	22
Combination Contour, Sawing, & Filing	16" - 20" throat	10
" " "	20" - 30" "	10
" " "	30" & over "	12
Ram Type Filing	6" - 12" throat - 3" stroke & over	30
Centering - Double end, Horizontal	under 60" length	3

GEAR CUTTING

TYPE	SIZE		NO. of UNITS
Gear Hobbing - Horizontal	4" - 8" diameter	13" face & over	2
Gear Hobbing - Vertical & Universal	under 16" "	8" to 14" face	12
" "	" 16" "	20" face & over	4
" "	16" - 24" "	12" to 18" face	1
" "	24" - 48" "	under 12" face	2
" "	24" - 48" "	12 to 16" face	4
" "	48" - 72" "	14" to 20" face	1
Shapers - Spur & Helical - External & Internal	under 12" diameter	under 3" face	64
"	25" - 40" "	" 9" "	15
Lappers - External Only - Spur			21
" - Helical			14
Shavers - Rotary External			48
Ext. & Int.			6

PUNCHING & SHEARING

TYPE	SIZE			NO. of U
Squaring & Gate Type	72" - 96" width	16 to 10 gauge	plate	8
"	10' - 14' "	16 to 10 "	"	3
"	10' - 14' "	10 gauge to 1/4"	"	33
"	14' & over	10 " to 1/4"	"	1
"	48" - 72" "	1/4" to 1/2"	"	3
"	10' - 14' "	1/4" to 1/2"	"	89
"	14' & over	1/4" to 1/2"	"	1
"	10' - 14' "	1/2" to 3/4"	"	60
"	10' - 14' "	1" to 1 1/2"	"	1
"	10' - 14' "	3/4" to 1"	"	3

BENDING & FORMING

TYPE	SIZE			NO. of UNI
Bending Rolls				
Power Driven	48" - 72" width	12 gauge to 1/4"	plate	6
"	48" - 72" "	1/2" & over	"	2
"	96" - 120" "	10 gauge to 1/4"	"	4
"	96" - 120" "	1/4" to 1/2"	"	2
"	10" - 14" "	1/4" to 1/2"	"	4
Press Brake	8' - 12' width	15 to 10 gauge	plate	2
"	8' - 12' "	10 gauge to 1/4"	"	26
"	8' - 12' "	1/4" to 1/2"	"	67
"	12' - 16' "	1/4" to 1/2"	"	13
"	12' - 16' "	1/2" to 3/4"	"	10
"	12' - 16' "	3/4" & over	"	3
"	16' width & over	10 gauge to 1/4"	"	2
"	16' "	1/4" to 1/2"	"	2
"	16' "	1/2" to 3/4"	"	2
"	16' "	3/4" & over	"	1

Appendix G

EXPORT INCENTIVES OFFERED BY EIGHT FOREIGN GOVERNMENTS

WEST GERMANY

Export Subsidies

Tax Rebates

There is a rebate of the value added tax on all goods exported.

Germany maintains free trade zones, where imports may be brought in without taxes or duties being levied. Imports for re-export will never have these duties levied, when shipped from the free zones. In addition to regular bonded warehouses where imports may be kept exempt from duties and taxes, certain private firms also maintain their own bonded warehouses. The parts imported to be re-exported with the assembled machine can be stored and used without payment of taxes and duties. Once paid, however, duties are not rebated.

Export Credit Insurance

Export credit insurance is provided jointly by two government agencies, both funded by the Federal Government. Guarantees cover the risk of insolvency and political risks, such as interdiction of payments, conversion and transfer delays and governmental measures likely to cause losses during the execution of an export contract. The exchange risk is not covered, except when the exporter has been compelled to accept a currency other than stipulated in the contract, or when he has obtained the Federal Government's authorization to accept a currency other than that stipulated in the contract.

Policies are both whole turnover and specific and cover up to 90 percent of the credit risk.

Export Credit Financing

The Deutsche Bundesbank, the German central bank, will rediscount paper for credits of between one and four years. In principle, rediscounted credits must be used to finance transactions with developing countries. There is no preferential export rediscount rate.

Export Promotion

Federal Office for Foreign Trade Information (BfA)

A division of the Federal Ministry of Economics, the BfA is responsible for all matters pertaining to foreign trade. It is composed of three divisions: Publications, Commercial and Legal Services, and Foreign Market Information. Commercial information is published in a weekly magazine. BfA also publishes country and market profiles, economic studies, legal guides, special studies, and guides on selling methods in various countries.

Trade Fairs

Participation by the Government usually takes one of three forms; Information Centers; Representative Shows, equivalent to our sample displays; and Government-Industry Exhibits in which the Government rents or builds a pavilion and leases space to German exhibitors, usually at the same rates prevailing at the rest of the fair.

UNITED KINGDOM

Export Subsidies

Tax Rebate

The purchase tax is rebated upon export of the product.

The taxes and duties on imports will be refunded if they constitute either a part of or the total product exported. Payment of duty or purchase tax is avoided by depositing these goods upon import at a bonded warehouse.

Export Credit Insurance

Export credit insurance in the United Kingdom is available from the Export Credits Guarantee Department (ECGD), a branch of, and funded by, the Government. The two main types of insurance offered are "comprehensive" and "specific". Comprehensive policies are required to cover a large spread of risks and have a high turnover, covering the relatively safe business as well as the less safe. Terms of up to five years may be covered by this type of policy. The exporter either undertakes to insure all of his export business during the next one or three years, or his export business in specified markets only, during the next year. This large spread of risks directly influences lower premiums. Risks covered fall into the following categories: commercial risks, such as insolvency of the buyer or his failure to pay; buyer's refusal to accept goods which have been exported to him; political risks, which include import license restrictions, war, revolution and certain other risks; additional handling, transport or insurance charges arising from interruption or diversions of the voyage; any other cause of loss occurring outside the United Kingdom and beyond the control of the exporter of buyer. Between 90 and 100% of the losses incurred are covered.

95-159 O - 68 - pt. 7 - 13

Under the specific policies, the exporter insures individual export transactions in capital goods or large projects which are unsuitable for comprehensive cover. Maximum cover is limited to 90%, and no cover is provided against the failure of the private buyer to accept the exported goods. In cases of large projects, direct 100% guarantee of the credit is granted the commercial bank by ECGD, after acceptance of the goods by the buyer. Provided that there is no competition with export of goods produced in the U.K., cover can also be given on the re-export of goods manufactured overseas.

Export Credit Financing

The Bank of England will refinance insured export credit of two years term or more. The amount refinanceable is either 30% of the loan outstanding, or repayments due to be made by the buyer in the next eighteen months, whichever is the greater. The commercial banks may count what is thus refinanceable as liquid when calculating their liquidity ratios, and for this reason have not, so far, needed to make use of the refinance facility. Export credit is financed at a lower, preferential rate.

Developing Overseas Markets

ECGD is prepared, in selected cases, to accept part of the risk involved in promotion and preparatory expenditure on an approved attempt at developing an overseas market.

Export Promotion

Trade Fairs

The Overseas Trade Fairs Directorate, in collaboration with industry, arranges collective participation by firms at such events. The Board of Trade provides free space and stand for each firm taking part in a group display sponsored by a trade association or other non-profit-making body at an overseas trade fair. It assists in translating sales literature and in plane fares for participants. For fairs outside Western Europe, the Board also pays up to one half of the freight charges for returning unsold goods exhibited at fairs.

All-British trade fairs are also sponsored by the Government.

British National Export Council

Formed by Government and private industry, BNEC functions include bringing trade opportunities to the notice of exporters; seeking new openings for the sale of British goods and services; encouraging and supporting organizations able to foster a favorable climate for British goods.

Trade Missions

Substantial financial aid is available for trade missions involving groups of foreign businessmen visiting Britain to buy, and trade missions involving British businessmen going abroad to sell. For approved projects, the Government through BNEC, pays up to half the basic costs of travel and accommodation. The balance is met by the sponsoring organization.

Trade Centers

The United Kingdom maintains four trade centers in Northern America.

Market Research

BNEC will pay one-half the overseas cost of market research sponsored by a trade association or chamber of commerce. Also, information is published daily on: details on contracts up for bidding by overseas governments, municipalities and similar bodies; advance information about opportunities arising from capital projects; market reports estimating the prospects for specific goods in individual countries, and market pointers providing background information on situations and developments which may lead to exports ... also details of export opportunities arising from the activities of international organizations.

Summary

The Government gives its full support to exporters, educating manufacturers thoroughly on all ramifications, laws and benefits to be gained by exporting.

JAPAN

Export Subsidies

Special Depreciation Allowances

The Japanese Government permits firms engaged in export to claim special benefits over and above normal depreciation allowances based on the following formula used to determine the amount of increase:

$$\text{ordinary depreciation allowance} \times \frac{\text{proceeds from specified "overseas transactions" in the preceeding accounting period}}{\text{total revenue in the preceeding accounting period}}$$

Overseas Market Development Reserve

Provisions for the cost of overseas market development may be deducted from the normal tax base (up to 2½% of the proceeds obtained from overseas transactions.)

One-fifth of this amount credited to the Reserve in one accounting period shall be added back successively to income in five succeeding years.

Bonded Warehouses

Japan maintains bonded warehouses where imports may be stored on a duty-free basis. Custom duties, when paid, may be rebated upon Cabinet order.

Export Credit Insurance

The Export Insurance Section, Trade Promotion Department, Ministry of International Trade and Industry directly insures against commercial, catastrophic, and political risks occurring outside of Japan, through both specific and turnover policies.

The policies cover the following principal risks: insolvency, protracted default; war, revolution, civil war; exchange transfer delay; new import-export restrictions; any other cause of loss beyond control of exporter or importer occuring outside Japan.

Export Credit Financing

Financing by the Export Import Bank of Japan has a lower, incentive discount rate for exports of capital goods of 4.0% and above, as compared with 5.5% for transactions of other manufactured goods. The bank is entirley owned by the Government and carries the main burden of medium and long-term export credit financing. The Bank finances up to 70% of the value of the contract minus down payment and profits if the credit is of between six months and one year, and 80% if the credit exceeds one year.

Export Promotion

Floating Fair

A specially-designed 13,000 ton ship, the "Sakura Maru" housing various exhibit items, travels each year to pre-designated trade target areas.

Mobile Trade Caravan

The latest of Japanese export promotion devices, specially-designed vehicles, are now carrying Japanese product exhibits through Africa.

JETRO

The Japan External Trade Organization (JETRO), sponsored by local and federal government, and private industry has two Japan Machinery Centers abroad, in addition to many Japan Trade Centers. Their showrooms are available for use by firms handling Japanese products. JETRO also provides informational services on Japanese products in foreign countries and Japanese regulations and procedures for foreign businessmen, in addition to supplying periodicals and films and conducting market research abroad.

JETRO also coordinates and subsidizes to a great extent exhibitions at international trade fairs.

Japan Consulting Institute

The Institute provides free consultant engineering services in connection with the sale of heavy industrial plants and equipment. It has 12 overseas offices in developing countries.

SWITZERLAND

Export Subsidies

Tax Rebates

The Turnover tax, assessed at each change of hands from raw material to assembled finished product is rebated to the exporter.

Export Credit Insurance

The Swiss Government guarantees export insurance covered by the Bureau pour la Garantie contra les Risques a L'exportation (E.R.G.), but only against political and other non-commercial risks, not catastrophic or commercial risks. The aforementioned Bureau receives its orders from and is responsible to the Federal Government, but is administered by the Swiss Machine Tool Builders' Association (Societe Suisse des Fabricants de Machines). The guarantees cover short-term and medium-term suppliers' credits, long-term suppliers' credits (granted mainly under the matching principle; i.e., to maintain competitiveness with credit terms offered by foreign exports) and buyers' credits granted within the framework of bilateral agreements between the Swiss Government and developing countries. Guarantees may cover specific or whole turnover policies.

Export Credit Financing

Export credit financing is carried on by commercial banks as part of their normal business, and is generally short or medium-term, however long-term export credit is financed in the form of buyers' credits backed by the buyers' Government in agreement with the Swiss Government.

Export Promotion

Office for Development of Trade

One-half Government and one-half private industry sponsored, it conducts market studies and researches foreign trade regulations. This data is published much like our Overseas Business Reports. When indicated necessary by private industry, the Office for Development of Trade will advise Government of non-tariff trade barriers, to facilitate freer exporting.

Italy

Export Subsidies

Tax Rebates

Exporters receive a rebate of turnover taxes on their sales. There is also a rebate on the import tax of iron and steel components of material to be exported.

Export Credit Financing

Medium-term financing and rediscounting is available through Mediocredito, a Government agency. Mediocredito will refinance up to 85% of the advances made by medium and long-term institutions to the exporter or rediscount up to 85% of the export bills they have discounted. Mediocredito charges a special interest rate of 3% for such refinancing, and will, if it lacks funds, grant the financing institutions an interest subsidy to make up the difference between the cost of borrowing on the market and the special interest rate of 5.90% charged to the exporter. The balance of credit is paid at the normal 8.5% rate. The maximum allowable rate of interest on export credit is 8.5%. Also, Mediocredito may refinance 25% of the export credit principal financed by the lending institute, and may grant a subsidy toward payment of the interest on the remaining 75% of the principal.

Export Credit Insurance

Export credit is insured by the Institute Nazionale delle Assicurazioni (I.N.A.), an autonomous government funded institution, against political and catastrophic risks and nonpayment when the purchase is, or has been, guaranteed by a foreign State or public agency. The only other commercial risk insured is against de facto or de jure insolvency on the part of the foreign purchaser. There is also coverage against the risk of rising production costs