

there is no justification for the disruption of normal marketing, the restriction on competition, and the proliferation of Government interference which would inevitably result from enactment of the quota legislation. Thank you."

Mr. Chairman, I would like to point out that in the case of transistor radios and small screen or micro TV sets these were essentially innovations which were developed abroad and which moved into the market in the interstices which existed at the time.

A previous witness testified that in 1947 there were 20 million U.S. manufactured radios sold in that year. I daresay that there was not a single transistorized set sold for the consumer market in 1947. They were all tube-type sets.

Also, in 1947 Bell Lab came out with the invention known as transistors which revolutionized the industry, and it was the application of this transistor technology to consumer goods that resulted in the transistor radio which, in fact, revitalized the radio market which was steadily going downward from the impact of the introduction of a black and white TV set so that after the transistor radios were introduced the radio market climbed very sharply.

Likewise with respect to the TV sets here again the imports came into a market interstice created as a result of the fault on the part of the U.S. manufacturer to go into the design and development of a personalized set. Heretofore both radio and television were considered as a part of household furniture. This concept was revolutionized as a result of the application of transistor technology to diminish the size of these units, and these are some of the things which might have been withheld from the American consumer were quotas to have been in existence at the time.

Thank you, Mr. Chairman.

(The statement of Paul M. Davidson follows:)

STATEMENT OF PAUL M. DAVIDSON, PRESIDENT, INTERNATIONAL IMPORTERS, INC.

Mr. Chairman, members of the Committee, my name is Paul M. Davidson. I am President of International Importers Inc., an importer and distributor of electronic products and components located in Chicago. I appreciate the opportunity to present the views of my company on the important legislation before your Committee.

You have heard opinions from industry leaders on both sides of the question of quotas for electronics. You have heard statistics on exports, imports, employment, and the balance of trade. The witnesses have discussed foreign relations implications, the possibility of retaliation, and its impact on the world economy. I will not deal with the broad issues of international competition in electronics. Although I have my own opinions on these issues, I doubt there is much I could add to what you have already heard.

But by speaking from my own experience I think that I can give you some idea of the impact which the quota legislation can have on the many small businessmen like myself who are engaged in the sale and distribution of electronic products.

Our company was established 15 years ago in Chicago. We are a relatively small company specializing in the importation and sale of finished electronic products and components. Sales to American manufacturers constitute a substantial part of our business.

I feel that companies like ours serve an important function for both the industry and the American consumer. We are an important supplementary source of electronic components for American sub-assembly set manufacturers. I know that these companies have a vital interest in a continued supply of products such as receiving tubes, semiconductors, and TV picture tubes from abroad. These imports have been vitally important in times of short supply, and their avail-

ability at reasonable prices has helped many smaller manufacturers to compete with integrated producers. The importance of imported components to American producers of consumer electronic products is illustrated by their efforts to obtain reasonable rates of duty for products such as color TV picture tubes and receiving tubes.

I know that some component manufacturers are claiming that imports threaten to destroy their business. These complaints are certainly difficult to understand in view of the published figures on the sales and profits of the major components producers. Certainly their substantial exports do not indicate their inability to compete in the world market. As for the claims of loss of employment due to imports, I was interested to note the press reports on the testimony presented to your committee last week by the Emergency Committee for American Trade. I understand that the ECAT presented an analysis of the statements by Trade Relations Council that employment in the electronic tube industry in 1964 was down 16.7% from the 1958-60 average. The ECAT analysis shows that automation, not imports, was by far the biggest factor in this job loss. In fact, imports were only a 3% factor in job displacement in the electronic tube industry.

Our company imports a number of finished products including TV sets, radios, and tape recorders. My best source of information as to the impact of such imports on the domestic industry comes from the American producers themselves. They are certainly in the best position to determine their need for protection against import competition, and their views should definitely be given close attention. The Consumer Products Division of the Electronic Industries Association has opposed import quotas and other forms of trade restrictions. They have emphasized the important role which imports play in the consumer market by providing home entertainment equipment which is priced within the reach of Americans who would otherwise be unable to buy these products. Furthermore, from my experience in this business, I know that imports, particularly for Japan, have introduced innovations such as the pocket-sized transistor radio and the small screen portable TV set which have made an important contribution toward expanding the entire U.S. market for electronic products.

Thus American manufacturing importers and the American consumer have all benefited from the trade in electronics. But this trade is now threatened by the import quota bills pending before your committee. You have been told about the world-wide repercussions which are bound to come if the largest single trading nation retreats behind a wall of quota protection. But I would like to discuss the effect of quotas on the many small businesses in this country which derive their livelihood from foreign trade.

As you know, import quotas are the most stringent and onerous form of trade restriction. Unlike tariffs which are simply another element in the cost of doing business, quotas completely disrupt the normal factors of supply and demand, and make it nearly impossible to conduct business in an orderly manner. The electronic quota bill and the so-called "omnibus" quota proposals would place absolute limits on the volume of imports.

The advocates of this legislation state that they are only asking for a reasonable regulation of trade. They say that they are not seeking a rollback in imports, and point to provisions which would permit imports to share in the market growth. While these proposals might seem to be reasonable and even liberal when viewed in the abstract, I ask you gentlemen to step in my shoes and think about their impact on the businesses which are engaged in the importation and sale of electronic products. In my view, the practical application of import quotas to businesses such as ours would totally disrupt normal operations and would jeopardize the existence of many small businessmen.

To begin with, I cannot see how one can do business when supply of his stock in trade is totally uncertain due to arbitrary restrictions. Once the annual quotas are filled, all additional imports would be totally barred from this country until the new quota opens. Even if the over-all quota is known in advance, no individual importer can be sure that his own shipment will be entered before the quota is filled. If the gates are closed while the shipment is on the way, the importer must bear warehousing costs until the quota reopens. How can we make commitments to our customers and suppliers, and how can we obtain the necessary financing under such circumstances?

Secondly, absolute limitations on imports imposed by the United States must necessarily result in controls on exports by the supplier nations. In the case of Japan for example, the various mandatory and so-called "voluntary" restrictions on other products have required the Japanese Government and industry to divide

up the quotas among manufacturers, exporter, and importers to avoid a chaotic scramble among competitors for the largest possible share of the quota. Similar arrangements probably would have to be worked out if U.S. quotas were imposed on imports of electronic products. This could have a damaging effect on small business in the United States.

If the experience under other quotas is any guide, the foreign supplier nations would have to allocate the quotas among manufacturers, exporters and importers according to their past historical share of the market. This would freeze the competitive position of individual U.S. companies. The large importers would remain large and the small importers small, and there would be little if any opportunity for growth. Companies such as ours would have no chance to expand their business because their relative position in the industry would be frozen. To say the least, such a situation is hardly compatible with our traditional philosophy of free competition.

Aside from these serious impediments to the management and growth of individual businesses, quotas would create an administrative nightmare. To give you one example, it is proposed that the over-all quota on electronic products and components will be divided among supplying countries by category of product according to market shares during a base period. But electronics is a dynamic industry, and new products are constantly being introduced. The government will certainly not want to discourage innovation by freezing the product mix according to the situation existing in the past. But how are we to open the market to new products to meet the needs of the consumer? The government would have to maintain continuing surveillance over the import quotas to revise the categories and sub-categories of products so as to maintain at least some room for innovation. Furthermore, some administrative means must be provided to relieve short supply situations. All of this means a proliferation of bureaucracy and regulation. I believe that even those who are clamoring today for quota "protection" would eventually discover that the price they would have to pay in terms of government interference in normal business activity is simply not worth the benefits they receive.

In conclusion, I urgently request the members of this Committee to give serious consideration to the practical effect of quotas on the every day operation of business. I submit that there is no need for import quotas in any segment of the electronics industry, and that there is no justification for the disruption of normal marketing, the restriction on competition, and the proliferation of government interference which would inevitably result from enactment of the quota legislation. Thank you.

The CHAIRMAN. We thank you for appearing for Mr. Davidson and presenting his statement to us. We appreciate it.

Any questions?

If not, the committee will recess until 2 o'clock this afternoon. Mr. Adams will be the first witness.

(Whereupon, at 12:25 p.m., the committee recessed to reconvene at 2 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Al Ullman, presiding.)

Mr. ULLMAN. The committee will be in order.

Our next witness is Mr. Adams. I would like to recognize Mr. Burke.

Mr. BURKE. Mr. Chairman, it gives me a great deal of pleasure to present to the committee Mr. Charles F. Adams whose company has many divisions in my State. Mr. Adams with a proud family history has made a great contribution not only in an industrial way but his firm has recognized the great problems about the unemployed and the unemployable. We in Massachusetts are proud of his accomplishments.

Mr. ULLMAN. Mr. Adams, you come highly recommended by our distinguished member from Massachusetts. We are very happy to have you before the committee. With the understanding your testimony will appear in full in the record you may proceed as you see fit.

**STATEMENT OF CHARLES F. ADAMS, CHAIRMAN OF THE BOARD,
RAYTHEON CO.**

Mr. ADAMS. Thank you, sir. Mr. Chairman and members of the committee, my name is Charles F. Adams. I am chairman of the board of Raytheon Co.

We are a diversified, international, science-based company, employing more than 50,000 persons. Our headquarters is in Lexington, Mass. We operate plants, laboratories and other facilities in that State and also in 12 others—New Hampshire, Indiana, Rhode Island, Oklahoma, Iowa, Pennsylvania, Connecticut, New Jersey, Tennessee, New Mexico, Virginia, and California.

We have subsidiaries and affiliates in many countries abroad including England, Italy, Switzerland, Holland, Canada, West Germany, India, and Japan.

Our sales volume for 1967 was \$1.1 billion, reasonably well balanced between government and commercial marketing activity. At the core of this business volume is our electronics technology, providing for the development, engineering, and manufacturing of components, equipments, and systems.

IMPOSITION OF QUOTAS ON NAMED COMMODITIES

I wish to address myself to only one aspect of this hearing on the general subject of trade balance between the United States and foreign nations. I am concerned specifically with proposals relative to the imposition of quotas, either on an across-the-board basis or on named items or commodities.

Where such proposals call for import quotas to be imposed on electronic products and components, as is proposed, for example, in the electronic import bill S. 2539, I wish to register our company's belief that the Congress should not pass such legislation. This belief, I might add, is shaped by many representatives of top management in the electronics industry.

The United States is an exporting nation, not an importing nation. This is made clear in figures issued by the U.S. Department of Commerce, showing that export sales in 1967 were more than \$4 billion higher than imports—\$31 billion in exports, \$26.7 billion in imports.

The introduction of import quotas in the United States on particular products such as electronic commodities and against particular countries abroad, can only lead to retaliatory measures which, in the final analysis, will be more detrimental than helpful to our industry's overall business.

BALANCE-OF-PAYMENTS DEFICITS

The import protectionists who seek to establish such quotas are claiming that their action will protect American industry from foreign competition and will so help to reduce the balance-of-payments deficit.

That claim is certainly open to argument. The current deficit in the balance of payments did not result from an export-import relationship but was caused by other factors, such as the cost of military operations in Vietnam, a decrease in business activity in foreign coun-

tries, lending by United States banks to foreign outlets, and—to some degree—the currency devaluation abroad.

It is scarcely logical, therefore, to seek a restriction of trade in the field of electronics, where the United States today enjoys a favorable balance of trade and where the steady trend is toward improving the balance of payments.

DOMESTIC MARKET IN ELECTRONICS

The electronics business in the United States has successfully met foreign competition in many products during past years, and is quite capable of maintaining and even increasing its competitive edge without import restrictions. With our vast resources in research and development, we in this country hold a strong technological superiority over our foreign competitors. With such leadership, we neither need nor seek the protection of a quota law. Such a law would harm us rather than help us.

Today's electronic imports amount to less than 5 percent of the domestic market. They serve an advantageous purpose by helping to counter inflationary pressures in their field. In many instances, they provide American industry and consumers with an opportunity to take advantage of low prices.

The electronics industry in this country is young, dynamic, healthy, and progressive. Factory sales of electronic products amount to some \$23 billion annually, only a small percentage of which can be attributed to imports.

The domestic industry is not experiencing today, nor does it expect to experience tomorrow, any economic difficulties traceable to foreign competition.

HARMFUL EFFECTS OF RESTRICTIONS

In short, there would be no justification for imposing a quota restriction on this particular field of imports. Such an imposition, we believe would produce an inflationary impact by decreasing the forces of competition and would quickly produce a counteraction abroad which would have a harmful effect upon our trade relations with the rest of the world.

We believe firmly that free trade between nations is desirable and necessary, and that the United States cannot afford to take a position of economic isolation. Our economy cannot flourish without our markets abroad; but to sell our goods and services among foreign nations, we must be willing to buy there on a mutually equitable basis. We must remain competitive worldwide, or we won't be competitive at all.

For these reasons, we respectfully request that the 90th Congress reject any proposal which would impose import quotas on any electronic product or component.

Mr. ULLMAN. Does that complete your testimony, Mr. Adams?

Mr. ADAMS. Yes, sir.

Mr. ULLMAN. Are there any questions? Mr. Burke.

Mr. BURKE. Mr. Adams, do you believe that our export trade could be increased by many of our American industries if they would take a real good, hard look at the foreign markets that are open to their products?

Mr. ADAMS. I think that an increasingly hard look has been taken in recent years but I do feel that this could be carried further. The United States has an advantage in the more complex and more sophisticated aspects of electronics and of the systems kinds of approach and I think in fields like the educational system and things of this kind, even in the developing nations, there are all kinds of opportunities that lie ahead for us and I do feel that we can expand our activities by a greater effort.

Mr. BURKE. Do you agree with me that many times you visit some large cities in the foreign countries, and you are rather surprised not to find many of our well-known products being sold in some of the markets, popular items over here that apparently have never reached the foreign markets?

Mr. ADAMS. I am not sure that I quite heard that, sir.

Mr. BURKE. I say are you surprised when you visit a foreign country and you find many of the products that are sold in this country and are looked upon as everyday articles that are in great demand—to find a lack of these articles in these foreign markets.

Mr. ADAMS. I think this is true. I think you have to look very carefully at the disposable income in some of these foreign countries and see how far up the scale they can go.

We regard color television here as a product wherein a large proportion of our homes in this country have television; but if you try to fit color television into the disposable income even in some of the more prosperous Western European countries, they are not ready for it yet.

It won't fit their budget situation very well; so that I think there are things of this kind that we consider commonplace here that you don't see over there, but many of the things that we see in this country, my observation has been, we see in a somewhat cruder, simpler, less expensive form there.

Many of the products that are tailored to our market are a little too rich for some of the markets abroad.

Mr. BURKE. Thank you.

Mr. ULLMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Adams, what suggested approach would you give to this Congress relative to eliminating some of these artificial barriers or indirect restrictions that we meet in some of the foreign countries? We heard testimony this morning about government restrictions in regard to the entry of power equipment. We heard discussion about residual quotas. We heard discussion about some of these artificial barriers which some of our trading partners have created.

What suggested approach would you give to this committee to meet this competition?

Mr. ADAMS. Well, I think this is a question on which I haven't the familiarity that somebody would have who had been present at the Kennedy round negotiations and at various GATT meetings and so on; but I have the quite strong feeling that if we start imposing quotas we begin to get sort of an across-the-board escalation of this kind of thing.

Mr. SCHNEEBELI. I will agree with you there, but disregarding quotas what other approaches have we? If we meet the same competition or if we have the same rules for international trade that they have, is this being unfair?

Mr. ADAMS. I don't think it is unfair, but in a sense we are a very rich nation in terms of the amount of exports we have versus imports.

I think most of the foreign countries looking just at our export-import situation regard us with great envy, and their economies are weaker, their trade balances are more difficult, and I think if we start asking for too much in the overall balance between nations that we may come off worse.

Now, I think we have to continue to try to trade this out but I think we always have to, in viewing this, look at the economic posture of some of these foreign countries, the problems that beset them, and therefore proceed with some patience.

For example, if we attempt to set import quotas against the United Kingdom, which is in severe economic difficulties——

Mr. SCHNEEBELI. Let's take Japan.

Mr. ADAMS. If you take Japan you are dealing with a very——

Mr. SCHNEEBELI. Aggressive.

Mr. ADAMS (continuing). Strong nation both in technology and productivity, its work force and all the rest of it, and I would hope that as relationships between Japan and the United States are developed that they will be more open. They have enormous markets in the Far East open to them.

The U.S. market is very important to them of course, but they have other markets and other opportunities and I would hope that their situation would open up gradually to allow us to import more to Japan.

Mr. SCHNEEBELI. Our conversations with them up to this point have been rather negative and when we asked them when they were going to eliminate some of these restrictions they told me personally possibly they might think about it in the next 5 years.

Are we going to wait 5 years to be outraded and do you think it is unfair for us to raise the same artificial barriers as they have against us during this 5-year interval?

Mr. ADAMS. In the case of Japan I tend to agree with you to a greater extent. I am a firm advocate of the greatest amount of free trade possible. I believe everybody gains by this and I think there are lots of examples to point it up, but in the case of Japan they have an extraordinarily effective economy in many areas outside of electronics and we don't have to have the same reservations that we may with respect to the English, or the French, or others who are having difficulty.

Mr. SCHNEEBELI. Mr. Adams, some of the members of this committee believe that in being tolerant and liberal and cooperative with some of our trading partners we are being taken over and we want to know what we can do to equalize this situation.

Mr. ADAMS. I am not really familiar enough with the give and take on the diplomatic battlefield to be able to make specific suggestions that I would like to be able to.

In my own company we have had considerable experience with selling highly sophisticated pieces of equipment where the technology of this country was superior to that available in the other country and it was on that basis that we were able to make sales.

These things were, if not in military areas, in areas such as airline operations, which are offshoots of the government in some of these countries, where they were open to accepting American equipment.

This has been true in Japan and in those circumstances we have had no difficulty, but they certainly do regulate what we can do there with great care and I think some possible threat in the case of Japan more than in any other place, not threat exactly, but some sort of a trading posture, might be useful.

Mr. SCHNEEBELI. I am glad you agree with our dilemma.

Mr. ADAMS. I am sure there is a dilemma.

Mr. SCHNEEBELI. Thank you.

Mr. BURKE (presiding). Are there any further questions?

Thank you very much, Mr. Adams. Your testimony has been very helpful.

Mr. BURKE. Our next witness is Mr. Richard Hodgson.

Mr. FULTON (presiding). Mr. Hodgson, the committee is very glad to have you today and for the benefit of the record will you please identify yourself?

STATEMENT OF RICHARD HODGSON, VICE CHAIRMAN, BOARD OF DIRECTORS, FAIRCHILD CAMERA & INSTRUMENT CORP.

Mr. HODGSON. Thank you, Mr. Chairman. I am Richard Hodgson, vice chairman of the board of directors of the Fairchild Camera & Instrument Corp. I appreciate the opportunity to be able to come and talk before this committee today because we feel very strongly on this subject.

Fairchild is primarily a manufacturer of electronic products and it not only makes various types of electronic components but also produces specialized instruments such as automatic test systems and digital voltmeters and graphic equipment such as electronic photo composition devices and color scanners, all of which we do a fine export business with.

In my prepared statement which I will submit for the record I have dealt with the economic and political problems posed not only by import quotas and import ceilings but by import surcharges and rebates and by direct investment controls.

The fact that this committee has acted favorably on the 10-percent tax surcharge and budget reductions I think has been a major step forward in meeting some of the basic problems which this hearing, as I understand, is being aimed toward. Because of the limited time I have to talk about some things we are basically interested in in Fairchild I would just like to offer my views on the effects which import quotas and ceilings would have on an American industry in general and particularly on the electronics industry.

It is the judgment of Fairchild Camera & Instrument Corp. that these various import-restricting proposals run strongly counter to our best interests as the world's foremost trading Nation. Their thrust is inconsistent with the basic principle that expanded trade with a concomitant increase in U.S. exports is not only a fundamental premise on which our international economic position must rest but an essential foundation for the political and economic stability of our various trading partners.

You have already heard a great deal about the electronics industry, its makeup and size, so I will not take up your time with a detailed description of it. I would like to add only a few comments in addition to those you have already received.

The electronics industry is certainly one of this country's most dynamic and growing industries. Between 1956 and 1967, electronic sales increased by more than \$15 billion. Imports do not have any significant share of the U.S. electronics market. In 1963, imports comprised 2 percent of our market by value—in 1967, they amounted to 3.5 percent of the market. During these same years, electronic exports have been growing. In a period of 4 years, they increased by almost \$900 million. The result has been an increasingly favorable balance of trade, which amounted to \$541 million in 1963 and climbed to \$945 million in 1967.

The primary reason for this growth in electronics exports has been that American manufacturers enjoy a substantial measure of technological superiority over foreign competitors. Virtually all of the recent creative breakthroughs in electronics have been made by domestic firms.

If any of you happened to read any of the trade journals in the electronics industry you will recall the fact that every week there probably are at least 150 new products introduced on the market, not only the domestic market but the world market, today because of the innovation and technological superiority of the American electronics industry.

We hear something about the problems of the transistor radio and the impact it has had on our own domestic economy. I think this is a passing situation and the technological development in integrated circuits today is going to permit the American industry to produce a solid state integrated circuit pocket-size radio without this labor-intensive component which has been talked about and that will dilute materially the problems that are facing some of the industry and some of the companies today in this business.

The growth of Fairchild is typical of the expansion of this country's electronics industry. Through extensive research and the application of new technological developments, Fairchild has more than doubled its size during the last 5 years. In 1962, this company had some \$101 million worth of sales and employed 7,369 persons in the United States. By 1965, sales were over \$181 million; and by 1967, they had grown to over \$228 million. Domestic employment had increased to 11,552 in 1965 and to 14,678 by the end of 1967.

Moreover, this same rapid domestic growth has marked Fairchild's activities in the production of semiconductors and integrated circuits. This fact should be of great interest to this committee for it is in the semiconductor field that Fairchild has also opened several assembly plants abroad. But these foreign plants have not meant fewer sales for or domestic operations or fewer jobs in the United States. Instead, the result of increased foreign assembly operations has been new foreign sales and the opening of untapped markets in the United States for Fairchild's goods. Inevitably, this has meant an upsurge in sales and the creation of new employment opportunities in this country. Thus in 1962, employment semiconductor plants in the United States had less than \$50 million in sales and employed some 2,900 workers. By the end of 1967, semiconductor sales had increased by over 200 percent and employment was up to 8,883 workers.

At the same time, Fairchild's operations abroad were opening up new foreign markets and putting our sales force into contact with a

broader range of customers for products that were made in this country. As a consequence, the company's foreign sales from its domestic plants soared and this in turn was reflected in an increasingly favorable balance of trade. In 1964, Fairchild's Semiconductor Division exported \$1.4 million worth of goods and had a favorable trade balance of \$550,000. By 1967, this division was exporting almost \$28 million worth of goods and its favorable trade balance had risen to over \$11 million. In fact, during that year, the exports of all the divisions of Fairchild had risen to \$39 million and its favorable balance of trade was over \$21 million.

You might ask the question why has Fairchild been able to grow this rapidly. This point has been touched upon in some of the other testimony. It has been because of the superior position which the semiconductor industry and other component manufacturers have had in technology. We have been able to open foreign plants while doubling employment at home. Why has it increased its favorable balance of trade by over \$14 million in 3 years?

In addition to having superior technology to the foreign competitor we have been a company which has integrated its domestic and foreign questions. This is a lesson that I think a lot of companies that worry about the quotas should learn.

Its skilled jobs we have kept in this country; its most simple and tedious production functions are performed abroad. It freely exports and imports a variety of electronic parts and components. The end result of this integrated manufacturing process is a lower priced product which can compete more effectively both at home and abroad. New markets are opened and sales increase. More employment opportunities are created both here and abroad, and, because the goods being exported are more sophisticated and expensive than those being imported, the favorable balance of trade constantly increases.

This process which I have just described is no pipedream. It is the way in which the manufacturing operations of Fairchild and many other American companies operate. Fairchild continues to grow because its production processes and markets are both international. It takes pride in its domestic and foreign plants and in the opportunity to import and export goods freely precisely because these various international operations are serving this Nation's best interests. Not only can Fairchild state that it is helping to increase the U.S. favorable balance of trade and thereby decrease this country's unfavorable balance of payments, but it is also opening a growing number of export-import related jobs. We estimate that from 1964 to 1967, the increased international sales of just our semiconductor division created over 2,100 new jobs at that division's plants in the United States alone. This represents approximately 25 percent of the employment in these plants.

With this background in mind, it is now possible to examine the problems which would arise for the electronics industry if quotas or import ceilings were to be adopted by this Congress. In short, I would like to put much of the general discussion about import quotas and ceilings which you have heard over the past few weeks into the context of the one industry with which I am familiar—electronics.

First, quotas as well as import ceilings are both inflationary and discriminatory. They will normally cause sharp decreases in supply

and concurrent increases in prices—and thus impose hidden taxes on consumers while subsidizing favored domestic industries. In the electronics field, quotas would raise the price of various electronic products, thereby squeezing low-income purchasers out of the market. In the case of Fairchild, this process would come about in two stages. First, quotas on semiconductors or integrated circuits would drive up our price to end-use producers. The resulting increase in the price of such products as radio and TV sets would ultimately reduce end-use sales and then the sales of Fairchild to these consumer goods producers.

Second, countries whose products are subject to our quotas will normally retaliate by raising their own trade barriers against goods from the quota-imposing nations. This result would be particularly true if quotas should be established for electronic products. Foreign countries will never understand why this country should impose quotas for an American industry which is healthy, growing, and maintaining a favorable balance of trade. Under those circumstances, if this Nation should limit the import of various electronic commodities, our trading partners will be exceedingly tempted to limit our export of other electronic commodities.

It is my impression that in the last Kennedy round one of the reasons why people have been concerned about the fact that the electronics industry in this country was not well treated was the fact that in the negotiations, in the give-and-take which went on at those meetings of the industries which were involved, the electronics industry in this country perhaps was the strongest and needed less protection and aid was given to some of the less, you might say, technologically prominent industries in this country.

Third, quotas would also produce great administrative difficulties and resist moderation or removal once enacted. In the electronics field, technology is changing so rapidly that it would be an administrative nightmare in my opinion, to determine which products should be subject to quotas or ceilings and which should not.

Finally, and most importantly, import quotas are simply not needed for the electronics industry. On the whole, our industry is prosperous and capable of meeting the challenge of foreign competition both at home and abroad. In fact, I think that a majority of the electronics industry realize this fact. At recent meetings of the Electronic Industries Association, some of whom you have heard from today, four divisions of that association—Consumer Products, Government Products, Semiconductors and Tube—have gone on record as being emphatically opposed to import quotas; while, to the best of my knowledge, only one division—Parts—has gone on record as favoring them.

Mr. Chairman, it is the judgment of the Fairchild Camera & Instrument Corp. that this Nation's current balance-of-trade and balance-of-payments problems are solvable. But it is also the judgment of my corporation that these problems must be treated within a framework of multinational cooperation and through an international effort to reach agreements and common goals. For the United States will only exacerbate its difficulties if it should now embark upon a unilateral, trade-restricting program in which national boundaries are transformed into national barriers and the private enterprise quest for new markets is replaced by governmental regulation of the movement of goods and capital.

Fairchild urges that the committee reject the various proposals involving quotas that are before you today.

(Mr. Hodgson's prepared statement follows:)

STATEMENT OF RICHARD HODGSON, VICE CHAIRMAN, BOARD OF DIRECTORS,
FAIRCHILD CAMERA & INSTRUMENT CORP.

Mr. Chairman and members of the committee, I am Richard Hodgson, Vice-Chairman of the Board of Directors of the Fairchild Camera and Instrument Corporation.

During the past three and one-half decades, this Nation has followed the principle that expanding international trade means more economic prosperity both for the United States and for the rest of the free world. We have been committed to the concept that the breaking down of national barriers to the free movement of goods and capital is one of the keys to a more inter-related and peaceful world.

Now we appear to be in danger of losing sight of these basic guidelines. The emphasis of too many people—both inside and outside of the Federal government—is to turn away from increased world trade and capital movement and to support instead the idea of an America whose industries are sheltered from foreign competition and whose private investments abroad are carefully regulated.

Evidence of this trend is all too easy to find. The Kennedy Round of Trade Negotiations had barely been completed when literally hundreds of import quota bills were introduced in Congress. Since then, various proposals have been made that the United States unilaterally adopt various surcharges, or surcharges and rebates, to compensate for the existence of foreign non-tariff barriers or, even more drastically, that this country impose a system of import ceilings for any products or articles which have penetrated our market beyond a specified level. These proposals have been coincident with the adoption of regulations by the Executive branch to impose direct controls on foreign investment.

It is the judgment of the Fairchild Camera and Instrument Corporation that these various proposed and existing measures run strongly counter to our best interests as the world's foremost trading Nation. Their thrust is inconsistent with the basic principle that expanded trade, with a concomitant increase in U.S. exports, is not only a fundamental premise on which our international economic position must rest but an essential foundation for the political and economic stability of our various trading partners.

To illustrate the potentially deleterious effects of these trade restricting programs, I would like to turn briefly to an examination of the electronics industry in general and to the Fairchild Camera and Instrument Corporation in particular. I would then like to deal with the problems which would be caused by this country's utilization of import quotas as well as other trade and capital restricting measures. Finally, I would like to offer a few suggestions as to the steps which this Nation might take in order to improve its balance of trade and thereby strengthen its balance of payments position.

I. THE ELECTRONICS INDUSTRY AND THE FAIRCHILD CAMERA & INSTRUMENT CORP.

Electronics is one of this country's most dynamic and growing industries. In 1956, factory sales of all electronic products amounted to \$6.7 billion. Ten years later, sales had trebled to \$20.2 billion. And this rising sales curve shows no signs of slackening, since the preliminary figures for 1967 reveal an increase to some \$22.1 billion.

Imports do not have any significant share of the U.S. electronics market. In 1963, they comprised 2 percent of the market by value—in 1967, they amounted to 3.5 percent of it. During these same years, exports of U.S. electronic products have been growing rapidly and at a faster pace than overall U.S. exports. In 1963, electronic exports amounted to \$846,000,000; by 1967 they had soared to over \$1.7 billion. The result has been an increasingly favorable balance of trade in electronic products which more than doubled between 1961 and 1967.

The primary reason for this growth in electronic exports has been that American manufacturers enjoy a substantial measure of technological superiority over foreign competitors. Virtually all of the recent creative breakthroughs in electronics have been made by domestic firms. In all markets—whether in the United States or in foreign countries—American firms dominate the production and sale of sophisticated electronic products.

To a large extent, the chief beneficiary of this growth in domestic production and in international trade has been the American public. Employment in the electronics industry has grown from some 650,000 in 1958 to 1,163,000 in 1967. At the same time, consumer prices for electronic products have reflected the benefits of heavy and unrestrained competition and a willingness on the part of domestic manufacturers to leave the production of certain low-cost and unsophisticated electronic commodities to foreign manufacturers—a choice which has resulted in every American being able to enjoy the fruits of technological progress in electronics. Thus, the Bureau of Labor Statistics Consumer Price Index for December 1967 shows all consumer items to be at 118.3 (1957–59 base of 100). Yet for electronic consumer products, the same index shows that the consumer price is some 5 to 20 points below the base period figure.

The growth of the Fairchild Camera and Instrument Corporation is typical of the expansion of this country's electronics industry. Fairchild is primarily an electronics company; it not only makes various types of electronic components but also produces specialized instruments such as automatic test systems and digital voltmeters and graphic equipment such as electronic photo composition devices and color scanners. Through extensive research and the application of new technological developments, Fairchild has more than doubled its size during the last five years. In 1962, this company had some \$101 million worth of sales and employed 7,369 persons in the United States. By 1965, sales were over \$181 million and by 1967, they had grown to over \$228 million. Domestic employment had increased to 11,552 in 1965 and to 14,678 by the end of 1967.

Moreover, this same rapid domestic growth has marked Fairchild's imaginative activities in the production of semiconductors and integrated circuits. This fact should be of great interest to this Committee for it is in the semiconductor field that Fairchild has also opened several assembly plants abroad. But these foreign plants have not meant fewer sales for our domestic operations or fewer jobs in the United States. On the contrary, the result of increased foreign assembly operations has been new foreign sales and the opening of untapped markets in the United States for Fairchild's goods. Inevitably, this has meant an upsurge in sales and the creation of new employment opportunities in this country. Thus in 1962, our semiconductor plants in the United States had less than \$50 million in sales and employed some 2,900 workers. In that same year, Fairchild opened its first foreign assembly plant. By 1965, domestic sales had more than doubled and employment was up to 6,141 workers. By the end of 1967, semiconductor sales had more than trebled from 1962 and employment was up to 8,883 workers—an increase in our labor force of over 200 percent from 1962.

At the same time, Fairchild's operations abroad were opening up new foreign markets and putting our sales force into contact with a broader range of customers. As a consequence, the company's foreign sales from its domestic plants soared and this in turn was reflected in an increasingly favorable balance of trade. In 1964, Fairchild's Semiconductor Division exported \$1.4 million worth of goods and had a favorable trade balance of \$550,000. By 1967, this Division was exporting almost \$28 million worth of goods and its favorable trade balance had risen to over \$11 million. In fact, during that year, the exports of all the Divisions of Fairchild had risen to \$39 million—an increase of over 300 percent from 1964—and its favorable balance of trade was over \$21 million.

Why has Fairchild been able to grow this rapidly? Why has it been able to open foreign plants while still doubling its employment at home? Why has it increased its favorable balance of trade by over \$14 million in a period of three years? The answer is simple. Fairchild is a company which integrates its domestic and foreign operations. Its skilled jobs are kept in this country; its most simple and tedious production functions are performed abroad. It freely exports and imports a variety of electronic parts and components. The end result of this integrated manufacturing process is a lower priced product which can compete more effectively both at home and abroad. New markets are opened and sales increase. More employment opportunities are created both here and abroad, and because the goods being exported are more sophisticated and expensive than those being imported, the favorable balance of trade constantly increases.

This process which I have just described is no pipe dream. It is the way in which the manufacturing operations of Fairchild and many other American companies operate. Fairchild continues to grow because its production processes and markets are both international. It takes pride in its domestic and foreign

plants and in the opportunity to import and export goods freely precisely because these various international operations are serving this Nation's best interests. Not only can Fairchild state that it is helping to increase the United States' favorable balance of trade and thereby decrease this country's unfavorable balance of payments, but it is also opening a growing number of export-import related jobs. We estimate that from 1964 to 1967, the increased international sales of just our Semiconductor Division created over 2,100 new jobs at that Division's plants in the United States.

With this background in mind, it is now possible to examine the problems which might arise for a variety of American industries, and for the electronics industry in particular, if quotas or various other types of import restrictions were to be adopted by this Congress and if the present controls on direct investment were to be continued indefinitely.

II. THE EFFECT OF UNILATERALLY-IMPOSED TRADE AND CAPITAL-RESTRICTING MEASURES

A. Import Quotas

In general, the imposition of import quotas for a wide variety of industrial products would have the following disadvantageous features for this country:

First, quotas are both inflationary and discriminatory. They will normally cause sharp decreases in supply and concurrent increases in prices, and thus impose hidden taxes on consumers while subsidizing favored domestic industries.

Second, quotas will not, in the long run, aid the industries for whose benefit they are adopted. They will make technologically innovative companies lazy and will provide little incentive for backward companies to modernize rapidly.

Third, quotas produce great administrative difficulties and resist moderation or removal once enacted.

Fourth, countries whose products are subject to new quotas will normally retaliate by raising their own trade barriers against goods from the quota-imposing nation. Since such retaliation could not be expected to be at a carefully measured level of reciprocity, a spiraling trade-restricting process would begin in which no country could emerge as the winner and the United States, with so much at stake, would be the biggest loser.

Fifth, adopting import quotas places this country in the position of threatening the results of the Kennedy Round of tariff reductions. As the Canadian-American Committee has recently noted, such a step would be taken as a "signal" of a "retreat from leadership in world affairs into economic nationalism." The result would be an impairment of this country's bargaining position in its delicate negotiations to obtain international cooperation in dealing with its balance of payment problem.

All of these disadvantageous features are highlighted if we turn to the proposals which have been made in Congress to place quotas on electronic products.

First, quotas would raise the price of various consumer electronic products thereby squeezing low-income purchasers out of the market. In the case of Fairchild, this process would come about in two stages. Quotas on semiconductors or integrated circuits would drive up our price to end use producers. The resulting increase in the prices of such products as radio and TV sets would ultimately reduce end use sales and then the sales of Fairchild to these consumer goods producers.

Second, the electronics industry—like many other industries for which import quotas have been proposed—is prosperous and capable of meeting the challenge of foreign competition both at home and abroad. In general, the industry does not need protection since it is not being injured by imports which in fact hold a relatively insignificant share of the domestic market. Those companies which feel threatened by imports must undergo a process of improving their technology. Import quotas will not induce them to undertake this necessary modernization process but will merely reward their past failures.

Third, the changing technology of electronics leads to a constantly changing range of products. Under such circumstances, the administrative difficulties in determining specific quotas for individual items would be almost overwhelming.

Fourth and fifth, import quotas for electronic products could only have a damaging effect on our trade relations with the rest of the world—and inevitably on our balance of payments problem. For if the rest of the trading nations of the world should bear witness to this Congress' act of imposing quotas on electronic products—and on other products similarly situated—they will be driven to retaliatory action. There will be no way of justifying protectionist policies to

these countries when they can see that the industry affected is healthy, growing, and maintaining a favorable balance of trade, and when they know that a substantial segment of that industry does not favor such quotas.

In fact, I think it is fair to say that a majority of the electronics industry is opposed to import quotas. At recent meetings of the Electronic Industries Association, four Divisions of that Association—Consumer Products, Government Products, Semiconductors, and Tube—have gone on record as being emphatically opposed to import quotas, while, to the best of my knowledge, only one Division—Parts—has gone on record as favoring them.

B. Import ceilings

It has also been suggested that in place of import quotas, this Nation should adopt a more flexible system of import ceilings with automatic trigger points for certain articles or products. This type of measure is subject to the same criticisms as are import quotas. Not only would it lead to a freezing of current patterns of trade—which is not in this country's best interests—but it would inevitably lead to enormous inequities. For example, let us turn to the electronics industry again. While this country's electronics firms maintain a large and increasingly favorable balance of trade, there are some electronic articles which are largely imported. Are we therefore to set ceilings for transistors or certain types of capacitors because imports have a substantial share of the domestic market? Are we to lose sight completely of overriding trade balances and foreign policy considerations in order to protect certain narrowly specified commodities? If we are, then I think this country should be prepared to see a worldwide reaction against the free movement of its favorite exports—of which electronic products is a prime example. For once this Nation begins to pick and choose those goods which it will protect from competition, then all nations will be entitled to decide that such a narrow and restrictive policy is justified. And in this reciprocal destruction of the open channels of trade, the United States, as both the world's leading trading Nation and the repository of the most advanced technology, must inevitably wind up the greatest loser.

C. Other unilateral restrictions on trade with our allies

In order to improve our balance of trade, other proposals have been put forward to impose high border taxes on foreign goods or to impose such surtaxes with equivalent rebates on our exports. The most disturbing facet of those various proposals is that they imply unilateral action on the part of the United States.

For this country to take any individual action outside of the GATT would be a mistake. The effect would be to re-establish a precedent of unilateral action—and once this is done, the abilities of this Nation to oppose similar unilateral action by its trading partners would be significantly reduced. In the long run, the cause of multilateral decision-making to reduce trade barriers would have suffered a severe setback.

For industries such as electronics—which consistently maintain a favorable balance of trade—the possibility that various foreign countries might begin taking independent steps to redetermine their own trade barriers raises very troubling problems. It would be logical for these barriers to protect against highly sophisticated products in which advanced technology and production efficiency play a great part—and these are the very types of exports in which the electronic industry specializes.

D. Limitations on direct investment

On January 1, 1968, the President—through an executive order—imposed direct controls on foreign investments by U.S. corporations and citizens and established repatriation requirements on the foreign earnings of domestic companies. These were drastic and unprecedented steps to control the flow of capital abroad and force profits to be brought back to the United States. If, in the long run, one of the keys to a viable balance of payments picture for this country is a growing surplus of foreign earnings, and another key is an expansion of the direct investment in foreign corporations which is reportedly generating approximately one-fourth of all U.S. exports, then the recent investment controls are indeed open to serious question concerning their wisdom.

Should these controls be continued over a period of several years, companies such as Fairchild will simply not be able to expand those foreign facilities which are producing the favorable trade balances these companies now maintain. And if this should happen, the direct investment controls will have produced very few positive gains indeed for our balance of payments.

III. POSITIVE STEPS TOWARD IMPROVING THE U.S. BALANCE OF TRADE

It is clear that for this Nation to maintain a favorable balance of payments picture, it must expand its favorable balance of trade. To do this, the Executive Branch as well as the Congress must be willing to take some new steps here at home. For example, we must begin to explore the possibility of expanding the guarantee and direct loan powers of the Export-Import Bank. We should also carefully examine the possibility of a lower tax treatment for export corporations and of a coordinated system of trade shows and fairs in this country to attract both foreign travelers and foreign purchases. During the past few years, increased foreign attendance and orders have marked the trade shows of the electronics industry. If the Federal Government can encourage more industries to undertake these types of shows, we will have taken a major step forward in our effort to increase our sales abroad.

But over and above any internal change that this Nation may make to improve its trade position, it should also accept the proposition that multinational rather than unilateral action must be our touchstone in dealing with all international trade problems and the fact that import quotas and ceilings and surcharges are totally inconsistent with this proposition.

In the place of these unilateral acts, this Nation should continue its efforts to obtain cooperation from its allies—cooperation which hopefully will lead them to increase the pace of their Kennedy Round tariff reductions, to reduce their border taxes so as to reflect more accurately those indirect levies which are actually built into the price of their goods, and to adopt monetary and fiscal policies which may further increase the demand for our products. Moreover, it is this same type of cooperation which can lead to a broad acceptance of rules for international competition and ultimately to the creation of minimum labor standards to be observed by all industrial nations. Finally, it is this same spirit of cooperation which could lead to a coordinated policy of trade with Eastern Europe and the Soviet Union—one in which United States industries would be enabled to obtain a fair share of what will hopefully become a growing East-West trade in non-strategic goods.

Mr. Chairman, it is the judgment of the Fairchild Camera and Instrument Corporation that this Nation's current balance of trade and balance of payments problems are solvable. But it is also the judgment of my corporation that these problems must be treated within a framework of multi-national cooperation and through an international effort to reach common goals. For the United States will only exacerbate its difficulties if it should now embark upon a unilateral, trade- and investment-restricting program in which national boundaries are transformed into national barriers and the private enterprise quest for new markets is replaced by governmental regulation of the movement of goods and capital.

Mr. FULTON. Thank you. Mr. Conable.

Mr. CONABLE. Mr. Hodgson, I understand your point of view about your industry. I am also somewhat concerned as a member of this committee looking at the overall testimony that is coming before us and I wonder if it is necessary for this country to be either free trade or protectionist.

Is it possible for us to strike a balance somewhere where we will be able to provide a degree of protection for the low skill, low technology, industries that provide jobs for so many of our disadvantaged and comparatively unskilled people and still avoid this course of retaliation that seems to be such a bugaboo to people in high skill industries like yours.

Is it possible to walk that narrow path do you think to find a compromise somehow?

Mr. HODGSON. It isn't going to happen in a very short time. I think it is possible to walk this kind of a path. We have had extremely good luck and fortune in training low-skilled people into the difficulties of making semiconductors and instruments. We happen to be the largest

employer of American Indians in this country. We have a plant in the Navajo Reservation in New Mexico, with 500 girls working there who have never seen a transistor before.

Their productivity equals the output we have from our factory in Portland, Maine, in Mountainview, or in Europe.

I think they need the opportunity and the legislative acts that are going on in this country today to bring opportunity to unskilled people is certainly working in this direction.

We are looking at a bit here and a bit there, but I don't think you are ever going to upgrade the working capacity of people by putting up an umbrella and protecting them and saying, look, we are going to keep you employed at \$1.60 an hour doing the job which can be done much better either by automation or certainly by bringing in competitive products from abroad.

Mr. CONABLE. Now let's look at this from a different angle. Isn't completely free trade going to end with total dependence on foreign suppliers for some types of products?

For instance, isn't it likely that some vital industries will be either moved abroad by our own producers or supplanted by foreign competition?

Mr. HODGSON. I think this could happen, yes, and I think some of the statistics that were given earlier today don't necessarily mean a reduction in employment in these specific industries that one is talking about.

We have moved abroad operations which were labor-intensive, low skilled. In many cases we weren't even able to man the plants, you might say, for this type of an operation.

People were not interested in this work. We moved them abroad. This is a period of time where certainly I agree our industry is perhaps special in that sense. It is highly technology oriented and new processes, new techniques, are going to bring a lot of that work back into this country but that doesn't mean that we are going to be laying off people abroad either. There are other opportunities for them now that have come out of our investments in plants abroad.

I think it is a continual series of movements. I think one has to look at the trade business as being an international business and not look at it specifically by countries or boundaries or industries.

Mr. CONABLE. Apparently one has to be an optimist in this field.

Mr. HODGSON. You have to be a believer, but I don't think you have to be an optimist.

Mr. CONABLE. I have no other questions.

Mr. FULTON. How many foreign countries does Fairchild have plants in?

Mr. HODGSON. Well, I would roughly guess about 10.

Mr. FULTON. Could you name those countries?

Mr. HODGSON. Yes; England, Sweden, France, Germany, Italy, Holland, Hong Kong, Korea, Australia, Canada, and Mexico.

Mr. FULTON. On behalf of the committee I want to thank you for your excellent presentation and contribution you have made to the committee in its deliberations.

Mr. HODGSON. Thank you.

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

STATEMENT OF H. WILLIAM TANAKA, COUNSEL, ON BEHALF OF CERTAIN IMPORTERS
OF ELECTRONIC PRODUCTS, A&A TRADING COMPANY, ET AL.

This statement is submitted on behalf of 13 U.S. corporations which import and distribute electronic products; We wish to register our opposition to the various bills now pending before the Committee which would impose quotas on imports of electronic products and components. We submit that there is no need for quota restrictions and that quotas would restrict the consumer's choice of products, would disrupt normal business operations, and would lead to an expansion of Government controls.

A description of the role which imports have played in the market might contribute to the Committee's understanding of the electronic industry. While it is true that imports have grown substantially, the bare statistics alone do not give an accurate picture of the actual extent of competition between imported and domestically produced electronic products. A substantial portion of the total imports represents products not produced in the United States. Innovations by foreign producers, particularly the Japanese, have served to fill the gaps in the product lines produced in this country, and have offered the consumer a full range of home entertainment products at reasonable prices.

The tremendous post-war expansion of the consumer electronics industry has been spurred by development of new products. Many items which are in wide use today were not available twenty years ago. Innovations by Japanese producers have played an important role in this expansion. Much of the original technology in miniaturization of electronic components and parts was developed in the United States for use in the military, space and industrial fields. This technology was licensed to Japanese producers who realized its vast potential in the consumer market. Their application of this technology in the production of new consumer products has made a substantial contribution towards expanding the range of items available to the American consumer today.

The development of the small pocket-size transistor radio is a prime example. The transistor was an American invention, but no U.S. company considered transistors ready for use in consumer products in 1954 when Sony Corporation obtained a license from Western Electric to make transistors in Japan. A single transistor cost \$6 at the time and there was no hope of competing with tube radios costing as little as \$6.95. (*Business Week*, May 25, 1968, page 80). But Sony executives realized that transistor costs could be substantially reduced to the point where small transistor radios could be sold at competitive prices. Within one year after acquiring the technology, Sony produced its first pocket-size transistor radio. It was shortly followed by other Japanese producers, and the transistor radio was an immediate success in the market.

The initial reaction of a major U.S. manufacturer was described in the report of an annual national business conference held at Harvard:

"Engineers and marketing personnel in GE's radio receiver department had studied the market for compact portable radios as early as 1956. Marketers had favored the addition of small sets to the company's line but believed that performance standards in such sets should be good. Engineering personnel did not believe that it was possible to have good performance in small radios. Because of the tiny speakers and cabinets that would be used, good tone would be impossible to achieve. Furthermore, such sets would have to have small antennas and their receiving sensitivity would necessarily be limited. Finally, small batteries could last only fifteen to twenty hours as compared to seventy-five to one hundred hours for batteries in conventional portable radios.

"The rapid acceptance of Japanese radios, however, had indicated the strong demand existing in the United States for subminiature sets, in spite of the fact that by GE standards these sets did not have good performance. It became apparent, then, to the management of the radio receiver department that GE should be represented in this new segment of the radio market."¹

The quality of transistor radios was substantially improved through Japanese developments in the field of miniature components. Mitsumi Electric invented the polyvaricon, a miniature tuning capacitor; while Toko invented the miniature intermediate frequency transformer. Many Japanese companies contributed to the development of improved speakers for transistor radios.

Some American producers decided to compete by using foreign components in sets assembled in the United States. Other companies imported completed sets produced to their specifications and sold under their own brand names.

¹ "Managing America's Economic Explosion", edited by Dan H. Fenn, Jr., and published by McGraw Hill Book Company, Inc., New York, 1961, page 145.

Recently, the large Japanese companies have concentrated on the more expensive multi-band transistor radios while much of the production of 6-transistor AM radios has shifted to smaller Japanese companies as well as producers in Hong Kong and Taiwan.

It is important to note that Japanese producers such as Sony, Matsushita, Toshiba and Hitachi were the first to exploit the vast potential of transistors in home entertainment products. These imports stimulated the growth of the entire consumer electronic market.

The Japanese producers were also the leading innovators in developing tape recorders for home entertainment use. Before the advent of imports, the only tape recorders available in the United States were large expensive units beyond the reach of the average consumer. Sony Corporation was the first to introduce battery operated portable tape recorders suitable for the mass market. Tape recorder sales were expanded through Japanese development of improved tape heads and motors. This product innovation created a new market dimension which would not have come into being at the time were it not for imports. Japanese producers are now developing a new mass market for tape recorders with the cassette tape cartridge system originated by Phillips of Holland. Another new dimension is being added by Japanese companies such as Crown which have coupled the cassette to telephone answering systems.

The imported micro TV set is another example. At a time when major U.S. manufacturers were advertising their 19-inch sets weighing 30 or 40 pounds or more as "portable," merely by adding a luggage handle, the imports came into this market with a truly portable 8-inch and 5-inch television receiver. Matsushita has recently introduced a 1½-inch black and white set powered by flashlight batteries. These imports have opened an entirely new market. In addition to the large living room console, the average family can now afford a second or third television set for other rooms or for outdoor use.

Japanese companies were also the leaders in small screen color TV sets. Toshiba was the first to offer a 14-inch color set. On the other hand, domestic producers have generally concentrated on the larger screen sizes.

The latest development in this field is the new 7-inch color TV set recently introduced by Sony. The set is the first commercial application of the chromatron picture tube invented in 1951 by Dr. E. O. Lawrence, a physicist at the University of California. Next year, Sony will introduce a new small screen color TV set with the trinitron color tube—a new departure in picture tube design which provides substantial improvements in brightness and clarity.

Japanese companies have also played a leading role in the development of home video tape recorders. Through new technological improvements the cost is being steadily reduced and complete video tape recorder systems are now coming on the market at a price within the reach of the average consumer. They will undoubtedly open new marketing opportunities in the consumer electronic industry.

These Japanese innovations have not displaced domestic production since, in general, comparable products are not produced in this country. Thus it is incorrect to assume that every imported transistor radio, portable tape recorder, or small screen TV set, means one less item produced in the United States with a corresponding loss of employment. Were it not for imports, these products would not have been available to the American consumer since U.S. companies have generally concentrated in the larger and higher profit items.

In fact, the innovations of Japanese electronic producers have benefited the American economy. They have opened up new markets and generated demand for new products. The American consumer has benefited through the variety and range of choice available today. And these innovations have provided employment for thousands of Americans engaged in importing, distributing, merchandising and servicing of consumer electronic products from abroad. The vitality of this industry would be jeopardized by the quota legislation pending before your Committee.

It is evident that the domestic electronic industry does not require special protection from imports. The United States is the world leader in electronics. The industry has experienced a fantastic rate of growth since World War II. Total factory sales rose from \$1.7 billion in 1947 to \$22.1 billion in 1967. Between 1958 and 1967, total employment jumped from 650,000 to nearly 1.2 million workers. The United States has a substantially favorable balance of trade in electronic products. Total exports in 1967 amounted to nearly \$1.8 billion with imports of about \$830 million. Total exports increased by 22.7% between 1966 and 1967,

compared to an increase of imports of 11.5%. (Electronic Industries Association, *Electronic Industries Year Book*, 1968).

The U.S. producers of consumer electronic products do not need quota protection; in fact, they strongly oppose the electronics quota bills. Sales of consumer electronic products increased 25% in 1966 over 1965—from \$3.7 billion to \$4.5 billion. 1967 sales were \$4.3 billion, almost equal to the sales level attained in the record year of 1966. (Ibid).

The consumer products producers have good reason to oppose import quotas. No manufacturer can efficiently and economically produce every one of the great variety of consumer electronic products on the market today. The American producers concentrate on those products which they can manufacture efficiently in volume, while relying on imports to round out their product lines. Major domestic manufacturers such as RCA, General Electric, Motorola, and Philco-Ford are going "international" by purchasing components and finished products wherever they can be produced at satisfactory quality and economical costs. Broadening the base for sourcing as well as marketing has served to improve the overall competitive posture of these companies. Moreover, many American producers of finished products who do not manufacture their own components have found that imported components help them to compete with integrated producers.

The U.S. manufacturers of industrial and military electronic equipment have not sought protection from imports. Companies such as IBM, Ratheon, and Fairchild Camera and Instrument Corporation are strong advocates of a liberal trade policy, and they have played an important role in the fight against quotas.

The request for quotas comes from only one segment of the U.S. industry—the producers of components and parts. But the facts show that this segment of the industry is thriving, and is in no need of special protection.

U.S. factory sales of electronic components totaled about \$5.5 billion in 1967, off slightly from the record \$5.7 billion in 1966, but higher than any other year. Industry estimates point to a rise in component sales in 1968. The ability of U.S. component manufacturers to compete in world markets is illustrated by their record exports in 1967 of \$486 million, up 10.5% over the previous year. (Electronic Industries Association, *Electronic Industries Year Book*, 1968).

The claim that imports have caused a loss of employment in the component segment of the industry is refuted by official Government statistics. Total employment in 1967 exceeded 360,000 workers; down from the peak year of 1966, but higher than any other year on record. The latest information shows that employment this year has moved up sharply. Total employment in electronic components and accessories reached 376,000 workers in May 1968. (U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, June 1968). At this rate, employment for 1968 could reach an all-time high, exceeding even the record 1966 employment of 374,000 workers.

Thus there is no need or justification for imposition of quotas on imports of electronic products and components.

The economic and political repercussions of quota restrictions have been emphasized in the testimony of both Government and industry witnesses. All nations would suffer from the inevitable chain reaction of retaliation and counter-retaliation.

In addition, quotas would totally disrupt normal business operations by placing arbitrary limitations on supply. Competition would be restricted, prices would rise, and Government control of business activities would increase.

Finally, quotas would stifle the innovative efforts of foreign producers which have contributed so much to the growth, variety, and vitality of the consumer electronics market. The American consumer and industry as well, would suffer as a result.

We therefore respectfully urge the Ways and Means Committee to reject the proposals for quotas on electronic products and components, and to reaffirm its support for a liberal trade policy.

This statement made in behalf of the following:

A & A Trading Company, 23-25 East 26th Street, New York, New York.

Craig Panorama, Inc., 2302 East 15th Street, Los Angeles, Calif. 90021.

Hitachi Sales Corporation, 48-50 34th Street, Long Island City, N.Y. 11101.

Lloyd's Electronics International, 6651 East 26th Street, Los Angeles, Calif. 90022.

Matsushita Electric Corporation of America, 200 Park Avenue, New York, N.Y. 10017.

Mitsumi Electronics Corporation, 11 Broadway, New York, N.Y. 10004.

Murata Corp. of America, 160 Broadway, New York, N.Y. 10038.

Pioneer Electronics USA Corp., 140 Smith Street, Farmingdale, Long Island, New York 11735.

Sharp Electronics Corp., 178 Commerce Road, Carlstadt, New Jersey 07072.

Sony Corp. of America, 47-47 Ban Dan Street, Long Island City, N.Y. 11101.

TDK Electronics Corp., 82 Wall Street, New York, N.Y. 10005.

Topp Import and Export, Inc., 4201 Northwest 77th Avenue, Miami, Fla. 33166.

Toshiba America, Inc., 477 Madison Avenue, New York, N.Y. 10022.

STATEMENT OF GENERAL ELECTRIC COMPANY

General Electric Company, 570 Lexington Avenue, New York, New York 10022, submits this statement to the Committee on Ways and Means in support of certain provisions of H.R. 17551, the Trade Expansion Act of 1968.

Specifically, General Electric supports the following two provisions of the pending legislation:

1. Extension through June 30, 1970 of the President's authority to negotiate tariff reductions;
2. Authorization of funds for the expenses of U.S. participation in the General Agreement on Tariffs and Trade (GATT).

And, in overall terms, General Electric supports the principles and objectives set forth in the President's May 28 message to the Congress on U.S. trade policy, which the pending legislation seeks to implement. We agree with the President that "when trade barriers fall, the American people and the American economy benefit" and that "even as we consolidate our past gains, we must look to the future."

Above all, General Electric endorses, and in this statement seeks to bring into particular commercial focus, two key sentences in the President's message:

"Other nations must join with us to put an end to non-tariff barriers. Trade is a two-way street. A successful trade policy must be built on reciprocity. Our own trade initiatives will founder unless our trading partners join with us to put an end to non-tariff barrier." (Emphasis added.)

There still exist today, 20 years after GATT was established and one year after the Kennedy Round was concluded, two major European non-tariff barriers which create one-way streets in international trade among the industrial nations of the free world: (1) nationalistic procurement policies and practices; and (2) the border tax system which permits remission of taxes for export and imposition of equalization charges on imports.

Both these barriers are ingrained into the economic structure and commercial self-interest of the European trading nations, and both have a significant effect on U.S. ability to compete in world markets. They are, therefore, of great concern to General Electric as a multi-national company which already exports \$500 million annually but must continue to seek widening markets for the export of its high-technology products.

First, the nationalistic public procurement policies of foreign governments. The electric utility systems of Europe are substantially owned or controlled by their national governments. As a matter of national economic policy these utilities buy electrical equipment only from their domestic manufacturers. Where domestic capability exists, no outside competition is permitted on these procurements, regardless of whether it offers a lower price or superior quality. Yet these same manufacturers, while enjoying the insulation of their protected home markets, can export to the United States and are doing so increasingly in substantial volumes.

What we are talking about here are hundreds of millions of dollars of trade in high-technology equipment among the industrial nations—the big turbine generators and power transformers and power circuit breakers that are the backbone of modern electric power systems. This is an industry in which the U.S. has always excelled—in innovation and technological advance, in engineering excellence and in manufacturing productivity. It is an industry whose major markets are the U.S. and industrialized Europe. Yet, U.S. manufacturers are foreclosed from the European markets, and their satellite markets as well, by procurement policies that give total preference to domestic manufacturers. Here is protectionism of the most radical sort, for it denies entirely the concept of reciprocity and a two-way street which the President laid down as a cornerstone of U.S. trade policy.

The commercial consequences of this one-way street in government procurement are set forth in detail in a technical brief and supplementary letter which General Electric recently submitted to the Trade Information Committee (TIC) in connection with the TIC's current study of U.S. trade policy. We are attaching the brief and supplementary letter to this statement for inclusion in the record of hearings on H.R. 17551, should the Committee consider it appropriate.* Suffice it here to summarize briefly the trade consequences of these exclusionary procurement practices of foreign governments in heavy electrical equipment:

(a) U.S.-made equipment is denied access to large and potentially profitable markets, to the detriment of the U.S. industry, its employees and the national trade account.

(b) Because their home markets are totally insulated from the discipline of outside competition, European manufacturers, in close cooperation with their customers, the nationalized power authorities, obtain all domestic orders at high profitable prices—prices which are generally higher than U.S. manufacturers obtain from U.S. utilities.

(c) With the assurance of steady home market orders at high prices, European manufacturers sell into this country, to both public and private utilities, at prices substantially below what they charge at home—20 to 50 per cent lower. Sometimes the foreign price in the U.S. market is at or below cost, as shown in our brief to the TIC. This is more than sporadic "incremental" pricing to get rid of excess capacity. It is a calculated long-term strategy of dual-pricing to capture, hold and enlarge the largest single market in the world for high-voltage electrical equipment which is at the very forefront of today's technology.

(d) An artificial competitive imbalance has fastened itself on the international trade of this equipment to the point that such international trade is a one-way street. Let us continue the U.S. commitment to open markets in this country. Let us also realize that the competitive imbalance, inequitable on its face and commercially disadvantageous to U.S. trade, will continue as long as the one-way street is permitted.

Second, the tax structures of most of the European trading nations, which impose equalization charges on imports (border taxes) and provide for remission of internal taxes on exports, confer a major trade advantage on those nations. Their indirect border tax system is not trade-neutral in its effect on the U.S. competitor who is operating under a direct tax structure.

The attached General Electric brief and supplementary letter to the Trade Information Committee, referred to earlier, also contain specific detail with respect to some of the trade consequences of the so-called border tax system. In this statement we would only emphasize our belief that the theory of tax shifting, direct taxes versus indirect taxes, which underlies the GATT rules with respect to imposition of equalization charges and remission of internal taxes for exports, should be re-examined and empirically tested for soundness, particularly the relationship of tax shifting to elasticity of demand. Until this is done, U.S. trade cannot be expected willingly to accept the trade disadvantages which flow from a theoretical rationale which has been allowed to stand untested for too many years.

Here, then, in bare outline, are the dimensions of two non-tariff barriers which have significant impact on U.S. trade and our competitive position in world markets.

We suggest that U.S. trade policy, as enunciated by statute, regulation and administrative practice, can and should seek to eliminate or at least reduce these barriers in two ways: (1) by international negotiation, and (2) by review and amendment of those U.S. laws and regulations which are intended to protect against unfair foreign competition.

First, continuing international negotiations to remove these barriers must be given priority. This is why we specifically support the provisions of H.R. 17551 which would extend the President's tariff negotiating authority and authorize funds for U.S. participation in the GATT. Such participation, on the strongest and most enduring basis possible, is an essential element of U.S. trade policy because it is in this international forum, as supplemented by

*The General Electric brief submitted to the Trade Information Committee included, as a separate attachment, a number of confidential exhibits which set forth cost and price information about foreign-made equipment. Should the Committee or the Committee staff wish to examine these exhibits they can be made available on a confidential basis.

proceedings in the Organization for Economic Development (OECD), that long-term solutions to basic trade restrictions and imbalances will be worked out. Our underlying commitment to liberalized reciprocal trade depends for its success in large measure on multi-lateral negotiations under the procedural safeguards of the GATT. The record of the past 20 years shows that GATT is the appropriate forum in which negotiations can be had to improve the basic rules of international trade and commerce that go far to bind the trading nations to fair trade and competitive equity.

In fact, the two non-tariff barriers we have cited in this statement are under consideration in the GATT right now. We have been so advised by U.S. trade officials; and in his testimony of June 4 before the Ways and Means Committee, Ambassador Roth said:

"We have also made a good start (in the GATT) toward reaching an agreed solution to the problem of the rules governing border taxes and are working in a special GATT group on the many problems that remain in other non tariff barriers."

The momentum of the Kennedy Round should be exploited to proceed now to this next and more difficult stage of negotiations on the real barriers to trade. U.S. trade policy, and the legislative base on which it rests, must accept the U.S. commitment to international negotiations to accomplish these ends. Accordingly, General Electric urges the Congress to give the Executive the legislative support needed to go forward in the GATT. And beyond this, we believe that the Congress should make clear its legislative intent that U.S. trade policy, in the GATT and all related international proceedings, must be conducted in such a way as to create genuine two-way streets and insure competitive equity for American industry.

Second, U.S. trade policy must have at hand and effectively employ an array of self-help remedies and legal recourse with which to discipline unfair competition in international trade. Our ability to negotiate successfully in the GATT and other international forums and to maintain a strong bargaining position depends in large part on the statutory authority of U.S. government and U.S. business to retaliate against trade discrimination and restrictive practices. This is particularly important with respect to short-term solutions for specific trade abuses, because international negotiations are necessarily long in their resolution and general in the agreements they reach.

It is appropriate, we believe, in the course of the Committee's consideration of H.R. 17551 that existing statutory remedies be reviewed carefully to determine if they are accomplishing the purpose intended and, if not, whether new legislation or new statements of Congressional intent are necessary. In his June testimony, Ambassador Roth said the following:

"I agree that the practices of other countries are not always what we would like them to be. Where I do not agree is that we are helpless before them. Both under our international commitments and our domestic law, we have remedies for many of them. We have the power to impose antidumping duties and countervailing duties to offset unfair pricing practices and subsidies. And we have authority to protect domestic producers seriously injured by imports even where foreign practices are perfectly fair. This includes the authority to increase tariffs under the escape clause and to impose quotas to protect domestically supported farm prices."

We suggest, however, that despite Ambassador Roth's statement, the existing array of apparently applicable self-help remedies now on the books is inadequate, either as written or as interpreted and implemented by Executive Departments and administrative regulations. We recommend that Congress review existing remedies in the light of unfair foreign competition; that is, those governmental and commercial policies and practices that give an artificial trade advantage to industries in competition with U.S. industry, whether in the U.S., their own home country or third country markets. In particular, we believe that the following three U.S. laws as they have been interpreted and executed should be re-examined in terms of their reach to prevent unfair methods of competition:

1. The Antidumping Act of 1921 (19 USC 160)
2. Countervailing Duties—Tariff Act of 1930 (19 USC 303)
3. Trade Expansion Act of 1962, Section 252 (19 USC 1882)

The Antidumping Act is not intended to reach unfair competition itself, but only the injurious consequences of such dumping. As such, it is not a relevant statutory remedy for an industry, or a company, which cannot meet the tests of material injury, as laid down by regulation and previous Tariff Commission

decisions. Unless the definition of "injury" under the Act were broadened to include certain kinds of dump pricing—from protected home markets, for example—as injurious (per se or presumptively) by reason of their effect on domestic price levels and share of market, the dual pricing strategies of foreign exporters of heavy electrical equipment cannot be disciplined under the Act by a healthy or relatively still healthy U.S. industry.

Countervailing duties provide an effective way to discipline export subsidies. Used sparingly in the past, they have recently been applied in a few instances involving both industrial and agricultural products. We suggest it is now time for an in-depth analysis of the more subtle forms of foreign government assistance to exporters to see if they are not in fact an improper bounty or grant under the statute. Thus, for example, restrictive government procurement practices which exclude U.S. competition, assure protected home markets, and thereby permit dual pricing—high at home, low into the U.S.—could well be held to constitute an export subsidy. So, perhaps, could government-financed research and development for high technology equipment going into export. Absent legislative direction to this effect, the Treasury Department probably and understandably would be reluctant to extend the reach of their authority to cases such as these.

Finally, Section 252 of the Trade Expansion Act, which appears to give the Executive broad authority to move against foreign protectionism and restrictive trade practices, has yet to be used. Admittedly, this is relatively new legislation. And, as a practical matter, it should be regarded and applied as a complementary part of overall trade policy, so as not to impair the outcome of international negotiations. But international negotiations should not replace Section 252 or render it inoperative. We would therefore urge that the Congress give more explicit legislative direction to the Executive in the purpose of Section 252 and specify the sorts of restrictive trade practices it was intended to protect against.

In conclusion, we would suggest two other steps which the Congress might consider to bring international competition into closer balance:

First, further study should be given to the idea that the U.S. adopt, in substitution for all or a part of the corporation income tax, a value-added tax which would have the trade effect of encouraging exports (by tax rebates) and imposing modest equalization charges on imports. The Committee for Economic Development has advanced this idea, and we believe it has sufficient merit to warrant serious consideration in the Congress. While it is preferable that there be international agreement that border taxes are not trade-neutral in their effect, with consequent revision of the GATT rules as to their application, nevertheless it is realistic for the U.S. to consider the alternative of adopting for ourselves, at least on a limited basis, the European indirect tax system.

Second, U.S. procurement policy could be changed to take into account the fact that certain foreign government markets are foreclosed from U.S. competition. In our brief to the TIC we suggested that U.S. procurement agencies could require certification by foreign bidders that they are not bidding in the U.S. at prices lower than they bid equivalent equipment in their own home markets. This suggestion is the obverse of a recommendation of the 1954 Report of the Randall Commission on Foreign Economic Policy. The Randall Commission recommended that where other nations treat U.S. bidders "on an equal basis with their own nationals" on government procurements, the Buy American preference should not be applied against suppliers of those nations bidding in the U.S. market. Equally valid, it seems to us, would be a U.S. requirement that where other nations do not permit U.S. suppliers to bid in their government markets, then at least some approximately equivalent deterrent should be applied against the suppliers of those nations. Such requirement might well be the means for creating two-way streets.

ATTACHMENT

BRIEF OF GENERAL ELECTRIC COMPANY, NEW YORK, N.Y., BEFORE THE OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, TRADE INFORMATION COMMITTEE, WASHINGTON, D.C., DOCKET No. 67-4

Some Non-Tariff Barriers to World Trade

INTRODUCTION

Present and future U.S. trade policy must be based on recognition of the fact that, in terms of expanding free world trade, the tariff-cutting phase of international trade relations has run its course, and a new phase has begun—the pains-

taking work of eliminating or reducing those nontariff trade restrictions and advantages which are rooted in national and regional economic policy.

The series of post-war multilateral tariff negotiations confirmed the trading nations' general commitment to expanded trade and rejection of out-and-out protectionism. But, precisely as these obvious evidences of pre-war protectionism have been stripped away, so the underlying imbalances and restrictions have emerged. These are the real inhibitors of expanded trade on a fair and competitive basis. The GATT is 20 years old; trade patterns and monetary flows reflect the deep changes that have occurred during this period; and protectionism has new faces. U.S. trade policy must adjust to the realities of commercial competition in the world today.

The General Electric Company is particularly concerned with two of these underlying imbalances and restrictions:

1. Nationalistic procurement policies and practices of foreign government-owned or controlled electric utilities which (a) exclude U.S. electric utility equipment from competing in their markets; (b) allow and encourage high non-competitive prices from their domestic suppliers in these insulated markets; and thus (c) permit and encourage those same domestic suppliers to export to the United States and third countries at prices which, in a true commercial sense, are at less than fair value. The competitive disadvantage to the U.S. industry, thus, is two-fold: exclusion from potentially profitable European markets; unfair pricing in the U.S. market.

2. The tax structures of most of the European trading nations, which impose equalization charges on imports (border taxes) and provide for remission of internal taxes on exports, confer a major trade advantage on those nations. Their indirect border tax system is not trade-neutral in its effect on the U.S. competitor who is operating under a direct tax structure.

General Electric views the foregoing two imbalances and restrictions in the following context of international competition:

First, General Electric has long been heavily engaged in international trade. It has manufacturing and distribution facilities in many parts of the world. It exports annually some \$500 million from the U.S. and imports some \$100 million. Accordingly, General Electric's overall objective in international markets is fair, freetrade with the fewest possible restrictions against the movement of goods across national borders so that customers everywhere have freedom of choice in making purchases anywhere in the world on a fair and equitable basis. General Electric does not believe in closed markets, whether they be achieved by high costs of entry or exclusionary public procurement policies.

Second, a substantial portion of General Electric's business is in high-technology products. The Company contributes significantly to this nation's technological world leadership. But with respect to electric utility equipment a disturbing situation is developing. A significant amount of competence in certain high-technology equipment is gained through sales in this country to the Federal power agencies. Sales to these Federal agencies are enormously important to the development of technology because they operate large systems that require high engineering sophistication. These agencies rank among the leaders in moving up to the larger sizes and voltage levels which require new advances in technology. Their influence on U.S. and world electric utility technology cannot be underestimated. Thus, to the extent that U.S. public procurement policy permits foreign manufacturers virtually full access to the Federal market—at prices substantially below their home market prices—while U.S. technology is denied access to foreign markets, there is technological unilateralism. The question must be asked, how much does this unilateralism impede or discourage U.S. manufacturers from developing new technology? One possibly relevant answer may lie in the declining number of U.S. bidders to the Federal power agencies on high-technology equipment in recent years and the increasing number of foreign bidders.

Third, the statistics of trade in heavy electrical equipment among the producer nations indicate a rapidly worsening competitive position for the U.S. industry:

- (a) In high-voltage power circuit breakers and transformers, where manufacturing capability exists in seven European nations, for the period 1963-1967 orders placed by U.S. utilities in these seven countries totaled \$97,185,000. Orders of U.S. equipment by the seven countries totaled \$59,000.

- (b) In large steam turbine generators, 10,000 KW and above, where manufacturing capability exists in seven European nations, orders placed by U.S. utilities in those seven countries totaled \$146,000,000. Orders of U.S. equipment by the seven countries totaled \$0.

Fourth, while the emergence of regional trade blocs such as the European Economic Community and the European Free Trade Association are welcome developments, they pose trade questions which have disturbing implications. To the extent that national preferences, restrictions and advantages in tax structure, and protective public procurement policy expand into regional arrangements, the U.S. and other outsiders will incur even greater competitive disadvantages. Moreover, General Electric can reasonably anticipate that the larger enterprises that emerge out of industrial realignment and rationalization within these regions will be strengthened by uniform and widened public procurement inside the sheltered markets, continuing high costs of import entry, and tax incentives to export.

Fifth, it must be recognized that the procurement and tax policies of these European countries are nationalistic instruments to encourage their manufacturers to help execute government policy designed (among other things) to protect their balance of payments and thus their currencies.

I

A. THE PUBLIC PROCUREMENT POLICIES AND PRACTICES OF THE EUROPEAN PRODUCER NATIONS OF HEAVY ELECTRICAL EQUIPMENT EXCLUDE U.S. COMPETITION IN EUROPEAN MARKETS

B. TOTALLY PROTECTED HOME MARKETS ENABLE EUROPEAN MANUFACTURERS TO PURSUE A STRATEGY OF "DUAL PRICING": HIGH HOME MARKET PRICES; LOW EXPORT PRICES

A. European Public Procurement Policies and Practices

1. *Most electric utilities are government owned or controlled public authorities.*¹—In the United Kingdom, France, Italy, Sweden and Austria electric utilities are almost entirely nationalized. The few regional public authorities, Scotland and Northern Ireland in the U.K., Electricité de Strasbourg and Compagnie Nationale du Rhone in France, adhere to the policies of their respective national authorities, the Central Electricity Generating Board (CEGB) and Electricité de France (EDF). In West Germany there is a mix of regional public utilities and private utilities, but the Federal Government is a dominant participant and influence in procurement policy by reason of its financing of utility expansion.

Thus the public procurement policies of all these countries, which implement underlying national economic planning, directly control purchases of utility equipment by public authorities.

2. *European electric utilities pursue strict buy-national policies.*—Where a European nation has domestic capability in electrical equipment it buys from its domestic industry.² This is a flat rule almost without exception. Sometimes the authority of such policies is contained in law, administrative regulation or executive order; sometimes it is simply a tacit or informal practice deeply rooted in a modern day economic nationalism. The specific procedures by which these policies are carried out are:

(a) Requests for bids are not formally advertised or otherwise given public notice. Instead, private discussions and negotiations are held between the utility and its potential suppliers whereby designs and specifications are spelled out and terms and conditions of sale agreed upon. Thus, there is scant opportunity for other qualified suppliers to respond to a bid or present their particular capabilities for consideration.

¹ Exhibit I.

² See Organization for Economic Cooperation and Development, Government Purchasing in Europe, North America, and Japan: Regulation and Procedures (Paris, 1966); also Exhibit II.

(b) Sole sourcing is permitted even though there may be other qualified suppliers. The utility can negotiate with a given supplier without notification to any other. This practice is frequently used when one supplier has established its competence in a particular rating or design.

(c) The utility may make a bulk allocation whereby it commits itself to quantity requirements for the expected life of a particular design at a particular rating. Production schedules may be spread over a term of years and prices subject to later agreement between buyer and seller. This arrangement has the advantages of completing a single, early procurement at which no firm orders are placed and no prices quoted; enabling the utility to distribute its purchases in a series of large commitments to a predetermined group of suppliers, or to only one; and, excluding potential competitors from bidding at a later date, even if they might offer superior designs or lower prices, because the selection decision will not be reopened at the time a firm order is placed.

3. *Design competitions and development programs for new classes of equipment are restricted to domestic manufacturers.*—The utility will disclose to selected suppliers its advanced plans and engineering requirements. Lead time in research and development is thereby assured, perhaps as much as ten years. Moreover, the public authority will frequently fund design competitions and development programs which are restricted to domestic manufacturers. Participating manufacturers are given extensive use of test facilities operated by the public authority, as well as use of the system itself. CEGB operates the U.K.'s biggest test facility in Leatherhead at its own cost, making results known only to specified manufacturers. EDF has a similar facility outside Paris. In Sweden, the development of high-voltage direct current techniques was conducted by a Swedish manufacturer, ASEA, on the State Power Board's transmission lines.

Compare these publicly financed programs with the U.S. system of research and development on a risk-basis. General Electric, for example, developed, at its own expense and with no purchase commitment of any sort involved, a 500 KV-class power transformer in 1948 (no orders were placed for this equipment until 1962) and a 765 KV transformer in 1958 (no orders placed until 1966).

4. *Utilities and domestic suppliers agree in advance on prices, quantities and contract terms.*—There is no doubt that this practice exists in the United Kingdom,³ and, General Electric believes, it exists also in France, Sweden, Switzerland and Germany. If so, the purpose is obvious: to forego competition in favor of limitation to a single supplier or a closed association of manufacturers.

5. *Outside solicitations or bids are deliberately discouraged or ignored.*—U.S. manufacturers do not receive notice of or a request to bid on a European public authority requirement where domestic capability exists. Moreover, on the occasions that General Electric Company has, on its own motion, sought to bid on or initiate preliminary discussions, it has been ignored or discouraged from pursuing the matter.

One critical point must be made here. General Electric cannot submit to the Trade Information Committee a comprehensive list of specific instances when it has unsuccessfully attempted to bid or be considered for an offering to a European public authority. Such a list would, of course, be helpful to the Committee and to U.S. trade officials. The fact is, however, that the preparation of a bid on heavy electrical equipment—a large steam turbine generator or a power circuit breaker procurement, for example—costs many thousands of dollars, and

³ Exhibit III: G. B. Richardson, "The Pricing of Heavy Electrical Equipment: Competition or Agreement?", *Bulletin of the Oxford University Institute of Economics and Statistics* (May, 1966), pp. 73-92; and Exhibit IV: Agreement between Central Electricity Generating Board and the Grid Switchgear Manufacturers, 1967. See also, Model Conditions of Contract for Turbo-Generators and Associated Plant of CEGB/BEAMA for 1963, plus Extended Form and Supplementary Clauses and Formulae Governing Contract Price Adjustments, and CEGB contract with English Electric Company, Ltd. General Electric has not reproduced these documents because of bulk but will make them available on request.

even preliminary discussions are expensive and time consuming. In view of past experience and some recent confirmatory efforts, General Electric believes that the time, expense, and frustration involved in a continuing course of bid submissions would be wasted; the Company is convinced that it will simply not be allowed to supply those markets. As specific substantiation of the U.S. industry's inability to compete in European producer nation markets reference is made to the following:

Confidential Exhibits A-J: Correspondence with Central Electricity Generating Board, 1965-1968;

Exhibit II: Affidavit regarding visit of General Electric official to Electricite de France, 1967.

Transcript of Private Conference with General Electric Company, Office of the Special Representative for Trade Negotiations, May 5, 1964.

Testimony of Robert L. Jeans, Westinghouse Electric International Company, before the Trade Information Committee, March 5, 1964.

Testimony of G. C. Hurlbert, Westinghouse Electric Corporation, before the Trade Information Committee, March 5, 1964.

B. European pricing strategies in the U.S. market

1. *Dual pricing.*—In selecting terminology for discussing the disparity between home market and export prices for European-made heavy electrical equipment, the lower export pricing might be variously described as "incremental," "dumped," or "predatory." For present purposes it is sufficient to use the term "dual pricing" to record that there are two distinct ex-factory prices for essentially the same equipment and, further, that there is every indication that the lower prices offered to the U.S. are the result of a deliberate course of conduct made possible by the artificial conditions of world competition in this equipment. If U.S. electrical equipment of the type herein discussed cannot compete in European markets, then, obviously, the pricing options and market strategies are predominantly with the Europeans who are permitted to sell here.

The disparity in price levels is composed of two elements: (1) remission of European taxes on electrical equipment going into export; and (2) cost or below-cost pricing on exports, which is made up for by profitable prices obtained in protected home markets.

When quoted for U.S. delivery, European ex-factory prices range from 20% to 50% below home market prices for equivalent equipment. About 20% to 35% of this differential is attributable to absorption by the manufacturers of fixed costs; and about 5% to 20% represents tax rebates and waivers and/or export incentive payments. Normal profit, or indeed, any profit, is foregone in such export pricing.

Such are the essentials in the establishment of a dual pricing system.

2. *Price comparisons.*—Comparisons of European power transformers and power circuit breakers, home market price versus U.S. market price, show European quotations in the U.S. to be at or near the lowest levels found in the world. Annexed hereto are confidential exhibits pertaining to market price disparities in power transformers made in the United Kingdom, France, Italy, and Sweden⁴ and power circuit breaks made in France and the United Kingdom.⁵

Inasmuch as these disparities cannot be explained by quantity discounts or other legitimate pricing justifications a clear presumption of sales at less than fair value is raised,⁶ under either U.S. law or Article VI of GATT. What is more,

⁴ See Confidential Exhibits K-N.

⁵ See Confidential Exhibits O, P.

⁶ See Confidential Exhibits Q.

a course of regular conduct as opposed to sporadic incremental pricing in its commonly understood sense, must also be presumed.

3. European manufacturers selectively price in the U.S. at or below cost.

Annexed hereto are exhibits pertaining to the full manufacturing costs of power transformers manufactured in France, Italy, Sweden, and the United Kingdom.⁷

Protected home market sales in those countries are deliberately assigned higher fixed overhead costs than export sales, regardless of the capacity level at which a factory might operate—levels which today, incidentally, are significantly below optimum capacity. As the exhibits show, British export quotations are at or below incremental cost levels; Swedish export quotations are at levels that cannot recover commercial and administrative expense; and Italian exports must depend on export incentive payments to come close to or meet the break-even level.

Detailed cost analysis of four large single-phase power transformers awarded to English Electric Co., Ltd. in 1966 by TVA (Exhibit V above) indicate a pre-tax loss to the manufacturer of \$631,400, or failure to recover about 22% of real costs on the delivered equipment. By reference back to Exhibit R, above, it can be understood that such sacrificial export pricing is directly related to and dependent on the high, profitable margins the same manufacturer receives on sales to the CEGB in the protected British market.

There is no indication that European manufacturers of such equipment enjoy cost advantages over U.S. manufacturers. Annexed is an analysis of comparative costs for a particular type of transformer made in Italy, the United Kingdom and the U.S.⁸ This analysis, which uses index numbers (General Electric delivered cost in the U.S. equal to 100) shows General Electric costs below both Italian costs of 104.7 and British costs of 130.6. In short, General Electric is cost competitive—in materials, direct labor costs, and overhead.

Finally, consider French power circuit breakers. The annexed exhibit⁹ compares costs, on an index basis, for a typical rating which a French manufacturer sells in quantity in this country. Overall, on delivered costs into the U.S. the French are at a slight disadvantage, 110.4 to General Electric's 100. Yet, as shown by Exhibit V above, the French are selling this breaker in the U.S. at an outright loss. Nevertheless the French manufacturer can sustain this loss very well because the below-cost prices of three of these breakers in the U.S. are counterbalanced by the margins achieved in a single high profit sale in the protected French home market.

General Electric must conclude, then, that it can, if permitted, deliver power transformers and power circuit breakers into European markets at lower cost than domestic manufacturers can deliver equivalent equipment into their home markets. And, what is more, the Company can do so without dual, or incremental, pricing below prevailing U.S. market prices.

General Electric is confronted, then, by closed markets in the European producers countries and the consequent working of a dual pricing strategy. That strategy is, for the most part, pursued by companies which are among Europe's largest aggregations of economic power. In their hands, it places American heavy electrical manufacturers at a serious disadvantage right here in the United States. It is a strategy almost impossible to defend against, for it precludes the disciplinary effects of fair and open competition in all the markets of the producer countries of the free world.

⁷ Confidential Exhibits R-V.

⁸ Confidential Exhibit W.

⁹ Confidential Exhibit X.

EXHIBIT I
EXTENT OF GOVERNMENT OWNERSHIP AND OPERATION OF ELECTRIC POWER SYSTEMS

Country	National Government ¹			Other Government			Remarks		
	Percent of system	Generation	Transmission	Distribution	Percent of system	Generation		Transmission	Distribution
United Kingdom	89	Yes	Yes	Yes	11	Yes	Yes	Yes	Auto production equals 7 percent of total power supply.
France	100	Yes	Yes	Yes					Auto production equals 18 percent of total power supply.
West Germany	6	Yes	Yes		76	Yes	Yes	Yes	Balance partly or wholly private ownership; auto production equals 33 percent of total power supply.
Italy	80	Yes	Yes	Yes	(3)	Yes	Yes	Yes	Auto production equals 19 percent of total power supply.
Sweden	50	Yes	Yes					Yes	Balance in private ownership; auto production equals 18 percent of total power supply.
Switzerland					(3)	Yes	Yes	Yes	Balance in private ownership; auto production equals 14 percent of total power supply.

¹ Includes regional agencies.

² Greater than 15 percent.

³ Greater than 90 percent.

EXHIBIT II

STATE OF NEW YORK,
County of New York, ss:

Affiant, being duly sworn, deposes and says as follows:

On June 1, 1967, accompanied by Mr. I. M. Mourad, IGE, Paris, I visited the subject customer located in Clamart, France just outside of Paris. The subject customer is Electricite de France.

The purpose of this visit was to present a description of our Power Circuit Breaker products for this customer's consideration and approval with the objective of becoming acceptable suppliers for their breaker requirements.

The customer was represented by:

Mr. Michaca, Directuer de Eludes de Recherche, E.D.F.

Mr. J. A. Duverny, Chief du Service Material, direction de l'Equipement du Riseau de Transport

Mr. P. M. Jouclar, Service du Material Electrique, Direction des Etudes and Recherche (also Assistant to Mr. Michaca)

Upon completion of my product descriptions, Mr. Michaca stated that there was no problem in applying our equipment to the E.D.F. system, in almost every voltage class, we have an excess of interrupting capability versus the breakers they were now buying.

At this point, they asked about prices and I gave them prices for five ratings of power circuit breakers. The prices given were essentially at the same price levels quoted to domestic U.S.A. utilities for those ratings considering the product modifications which apply.

To these prices we then added 17.6% tariff and then an additional 25% use tax. Mr. J. A. Duverny then said that all the prices with the exception of the 115 KV were competitive and "in the same range as domestic prices". At 115 KV, they buy a 2500 MVA unit which has a rather low price because it can be made as a single break device. I had no doubt that the prices given to E.D.F., except for the 115 KV, were lower than they now pay for this equipment supplied by French manufacturers.

I then asked, "Can I be allowed to tender quotations for this breaker request?" He replied, "At this time, I am not in the market for any breakers, however, if I was, I could not buy from you because it is our policy to buy only domestic products." He further stated that this has been their policy for about ten years and he expected it would continue so with the Government that now exists in France. I asked if this policy to buy only domestic products was an E.D.F. or Government policy and he replied that since E.D.F. was a Government owned utility, the policy he was speaking about was influenced by the same body.

The meeting then concluded with a tour of their testing laboratory and a luncheon.

Further deponent saith not.

Subscribed and sworn before this 25 day of April, 1968.

RICHARD E. BEDNAREK,

IRENE E. MORCHAND,

Notary Public.

Exhibit III

Bulletin of the Oxford University Institute
of Economics and Statistics

May 1966, pp. 73 ff.

THE PRICING OF HEAVY ELECTRICAL EQUIPMENT: COMPETITION OR AGREEMENT?

By G. B. RICHARDSON

1. *Introduction.*

This paper deals with three types of heavy electrical equipment, the markets for which have important features in common. The questions I try to answer are these. Should the prices at which the equipment is sold be determined by competitive tendering or by agreements? And, if agreements are judged appropriate, what form should they take, who should be party to them and to what controls, if any, should they be subject?¹

Although our concern is with the way in which prices ought to be set, it is instructive to consider how they have in fact been set in the past. In the United Kingdom, the prices of the equipment that concerns us have been regulated, for the greater part of this century, by agreements between the manufacturers; although these agreements broke down from time to time, we can regard their operation as the normal state of affairs. In recent years, however, this tradition has been broken. After an adverse decision, in 1961, by the Restrictive Practices Court, the agreements relating to one type of equipment—transformers—were abandoned. The others have been referred to the Court by the Registrar of Restrictive Trading Agreements but the hearings have been held up pending discussions between the manufacturers and their chief customer—the nationalised electricity authorities.

It is difficult to determine, with confidence, the extent to which the tradition of agreed prices has held sway in countries other than the United Kingdom. Restrictive agreements have for long been illegal in the United States, but the Philadelphia Anti-Trust Cases of 1960 produced evidence of elaborate arrangements to fix prices and share markets that were in effect, covertly, for at least one period in the recent history of the electrical machinery industry. Accounts of this famous 'conspiracy', and of other anti-trust cases involving the industry,² leave one with the impression that violations, despite the shocked indignation which they provoke, have been by no means infrequent since the turn of the century. This is not to deny that price competition has been severe at some times, as during the so-called 'white sales' of 1955;³ collusion, always illegal appears to have been intermittent and often ineffective. Whether the situation is better described as price competition tempered by collusion, or as collusion undermined by rivalries and the enforcement of the laws, I cannot judge. In Continental

¹ This article is an expanded version of a paper which I submitted to the Economic Development Committee for the Electrical Engineering Industry. I am a member of this committee and have benefitted from its discussions. My education has also been advanced through talks with representatives of the industry, but neither the EDC nor the industry bears any responsibility for the views I express.

² For an account of these see Corwin D. Edwards, *Big Business and the Policy of Competition*, 1956, pp. 137-41 and 163-64.

³ When price cutting is believed to have got out of hand it is termed 'white sale'. In 1955 orders for equipment were being accepted at prices up to 50 per cent below normal levels.

Europe price agreements were generally legal, and often officially approved, until after the Second World War, but there, as in Britain, public opinion and the statute books have recently undergone much change. Whether this has brought to an end the practice of agreeing prices, however, is another matter and one on which an outsider cannot easily form an opinion.

It is safe to conclude, even on this most cursory review of past experience, that the circumstances of the heavy electrical industry must be such as put firms under pressures towards price agreements, pressures strong enough to overcome the reluctance of managers both to accept restrictions on their commercial freedom and (in the United States) to run the risk of criminal prosecution. One of our tasks must be to enquire how these pressures are generated. We should also note, at this point, the great difficulty in arguing either for or against price competition merely by reference to the way in which it has in fact worked. Such an appraisal of price competition would need to examine its effects when sustained over a long period without the degree of mitigation that agreements, of varying legality and effectiveness, have always exercised in the past. In this respect the protagonists as well as the opponents of competitive pricing are in the same boat: they must endeavour to predict, with the help of theory and limited experience, what would happen in a hypothetical situation.

The pricing of heavy electrical equipment, in this country, has already received the attention of the Monopolies Commission, the Restrictive Practices Court and the Select Committee on Nationalised Industries.

The Monopolies Commission took the view that prices, in the markets we shall be considering, ought to be determined by competitive tendering.¹ It saw no merit whatever in agreements or arrangements between the manufacturers, who were urged 'to refrain from any kind of collaboration in matters of price and tendering'. Nor were they prepared to give any support to the manufacturers' suggestion that agreements might be operated with safeguards designed to ensure that prices and profits were reasonable; free competition, they insisted, was the proper regulator for these markets. Price notification agreements, in so far as they would apply to the home market, were also condemned, on the ground that understandings on prices might follow them.

The Restrictive Practices Court was called upon to declare whether a particular price agreement, operated by the transformer manufacturers at the time of the hearing, was contrary to the public interest; it did not have to give an opinion on the wider issue of the appropriateness of competitive tendering for all three types of equipment. Nevertheless, the judgment of the Court may be regarded as in line with the views of the Commission.²

The Select Committee, reporting six years later than the Commission, does not show the same enthusiasm for competitive tendering.³

While maintaining that 'competition is still realistic between firms making smaller equipment', it clearly has doubts as to its appropriateness for markets in which 'both the Board and the manufacturers of larger equipment at higher

¹ *Report on the Supply and Exports of Electrical and Allied Machinery and Plant*, 1957.

² *In re Associated Transformer Manufacturers' Agreement*, LR, 2 RP, 295.

³ Report from the Select Committee on Nationalised Industries; the Electricity Supply Industry, Vol. 1 Report and Proceedings. Chapter 16.

voltages are becoming more and more prisoners to size'. It recommended that an independent arbitrator, acceptable to both the manufacturers and the Central Electricity Generating Board, be asked to inquire into the arrangements for placing contracts and fixing prices.

It is not my purpose to review the arguments and the conclusions of the Commission, the Court and the Select Committee, but the reader will find in their reports a wealth of useful background material for which space could not be found in this article. My excuse for setting out, by myself, on this well-trodden ground is twofold. First, I wish to focus more narrowly on the relevant economic analysis than did these reports. Secondly, I find myself in disagreement with the conclusions of the Monopolies Commission and with part of the Judgement of the Court. One hesitates to question the findings of these bodies, which, quite rightly, have great authority, but some comfort may perhaps be found in the fact that these are matters on which informed opinion has, in the past, suffered a good deal of fluctuation.

I shall be dealing with three quite specific types of electrical equipment, these being turbo-alternators with ratings of 30 megawatts or above, Grid switchgear and Transmission and Generator transformers all for 132 kilovolts or above.¹ I shall refer to these, for brevity, simply as 'turbines', 'switchgear' and 'transformers', or, collectively as 'heavy electrical equipment', but the readers will have to bear in mind that we are dealing with restricted types of equipment under these heads. (Roughly speaking, we are concerned only with the largest or 'heaviest' categories of each of the three kinds of equipment). The justification for grouping them for discussion is the fact that they are sold under similar conditions.

2. *The Structure of the Markets.*

Let us begin by listing the common features of the three markets that are relevant to pricing policy.

(i) The first of these is the predominance, in the home trade, of the nationalised Electricity Supply Authorities. Turbines, switchgear and the larger transformers are bought, in England, only by the Central Electricity Board, and, in Scotland and Northern Ireland, by corresponding bodies. On the manufacturing side, we find three firms in turbines, four in switchgear, and about a dozen in transformers.²

¹ Electricity is generated by boiling water to produce steam, which, when applied to a turbine, strikes metal blades fixed to wheels, thus causing the wheels and connecting shaft to move at a high speed. This mechanical energy is then converted into electricity by a generator. The various bits of equipment other than the boiler necessary to do these things are referred to as a 'turbo-alternator set' and are usually ordered together. It is efficient to distribute electricity at a voltage higher than that at which it is generated and much higher than that at which it is ultimately used by consumers. The equipment which steps up the voltage when electrical energy leaves a generating station, or lowers it as the current passes to the consumer, is a transformer. Switchgear is used at the points where electricity is stepped up to voltages suitable for the main transmission lines and where it is stepped down. Its functions are to connect or disconnect a line as required or to act as a safety device cutting off a current when there has been a fault. Thus it acts like domestic switches or fuses, though the high voltages with which it deals require it to be much more complicated.

² The turbine makers are Associated Electrical Industries, the English Electric Company, and C. A. Parsons. Switchgear is made by the first two of these companies, by the General Electric Company and by Reyrolle. Of the dozen or so firms making larger transformers none has a share of the total markets as large as twenty per cent.

(ii) Of key significance for our analysis is the fact that the total home demand for each category of equipment is in effect totally inelastic with respect to price. This is certainly the case in the short run, as it is unlikely that the electricity authorities would alter their construction programmes in response to fluctuations in the price of this equipment. In the longer run, the price of the equipment, by influencing the cost of these programmes, might affect their scale, but the circumstance will have no bearing on the price that a manufacturer quotes for a particular order at a particular time. Although the total demand for each type of equipment is inelastic, however, the demand for that offered by any single seller will be highly sensitive to the level of his price compared to those of rivals. This very high cross-elasticity is the result of the fact that each item of equipment is produced by the different manufacturers to the same specifications, as laid down by the buyer.

(iii) Of related significance is the size of individual orders. Either because of the scale of particular items of equipment (as with turbines) or because of the inclusion of several items in one order (as with transformers), success or failure in obtaining a particular contract may have a very large effect on the total business obtained by a firm within a year. In the case of turbines, there are only about two orders, on average, per year, worth (in 1965) some £20 million each. A single order for transformers may represent a quarter of a firm's annual turnover in this equipment. The business in switchgear is in effect allocated in bulk by the Generating Board, rather than split up and put out to tender; but it is safe to say that were competitive tendering to be introduced, the size of an individual order could be very large.

(iv) Excess capacity, from time to time, is inevitable in this industry. There are several reasons for this. It is obvious, first, that if productive capacity is to be sufficient to meet the electricity authorities' demands when these are at their peak, then it will necessarily exceed them at other times. The demand for each type of equipment is on a steadily rising trend, but subject to fluctuation. The 'stop-go' policies, so much discussed in recent years, have a clear enough impact on this industry, in that they give rise to sudden modifications in the electricity investment programme. A greater stabilisation of public investment would permit a better adjustment of capacity to demand, though imbalances would never be wholly prevented. Export orders may help to fill the gap left by the falling off of home demand for a particular category of equipment, but they cannot be depended upon to become available in sufficient quantity at remunerative prices.

Excess capacity may also arise through technical advance. In the case of turbines, which form the heart of a generating plant, recent improvements have been very striking. Increases in the size of the turbine and devices that enable it to deal with higher steam temperatures and pressures have markedly reduced cost per kilowatt. The first 30 megawatts set was installed in 1930; by 1956 a 100-MW set had been commissioned and orders for 120-MW, 200-MW and 275-MW sets had been placed. The first 500-MW set was ordered in 1960. The cost per megawatt of turbine plant over these thirty years fell by more than half. (The rate of progress has been so rapid, in fact, that firms find themselves design-

ing plant with higher ratings before they have had operational experience of plant with lower ratings.) The fall in turbine cost per megawatt is associated with a reduction in the real resources required; excess capacity, in terms of skilled men as well as equipment, can be prevented only by a sufficiently great increase in the volume of orders.

The fact that the investment plans of the independent manufacturers are not co-ordinated can also result in excess capacity. This has happened, notably, in transformer production, where the number of firms concerned is relatively large. Given fairly large numbers, there is nothing to ensure that each firm, in the hope of realising scale economies, does not count on enlarging its share of the market, with the inevitable result that total capacity becomes excessive. This tendency, I have argued elsewhere¹ is endemic in precisely those markets with large numbers of producers acting independently that often feature as the textbook ideal.

(v) We have already noted, in the case of turbines, that the industry's product is subject to continuous change. The same may be said of switchgear and transformers, which have to be adapted to deal with higher voltages. As a result, the firms concerned deploy large resources in research, development and design. There is some inter-firm co-operation in this field, particularly in the development of certain kinds of switchgear, but the Generating Board took the view that there ought to be more of it.² This is an important matter lying, for the most part, outside the scope of this article; its relevance to pricing will be discussed later.

(vi) Finally, we must bear in mind the export trade, which represents a significant, but diminishing, proportion of the total sales of the equipment with which we are concerned. In 1965 exports of heavy electrical equipment represented about 16.5 per cent of the value of home deliveries, which were some £100 million in value. In 1961, the value of exports was almost one-third of home deliveries. I am concerned in this paper with the pricing of equipment sold at home to the electricity authorities, but it will be necessary to consider whether this has any bearing on the exports that firms are able to make.

3. *The Criteria of an Efficient System of Pricing.*

How are we to assess the relative merits of the alternative ways in which the prices of heavy electrical equipment may be determined? Let me now endeavour to set out, very briefly, the criteria that I shall apply.

First, and most obviously, the procedure adopted should be such as sets prices at levels that are appropriate relative to demand and cost conditions. Appropriateness, in this sense, has two aspects. It would be generally agreed the rate of profit in this line of production, taking one year with another, should neither exceed nor fall short of the rate in other industries subject to an equivalent degree of risk. Considerations of equity might be regarded as sufficient justification of this equality, but the economist sees it as a condition for the proper allocation of resources in different employments. We have to consider, that is to say, whether the prices set are likely to cause the right amount of productive capacity to be installed and to ensure that the right amount of output is being produced from this capacity.

¹ *Information and Investment*, Oxford University Press, 1960.

² Report from the Select Committee, pp. 167-8.

The indirect effects of alternative pricing systems must also be taken into account. Would they permit the more efficient firms to grow at the expense of their higher cost rivals? Would they put such pressure on producers as would induce them to exploit all available economies of scale? Would they be consistent with whatever forms of co-operation between firms in matters other than price, are held to be desirable? Would they be likely to facilitate, or to hamper, the forward planning of production? How, if at all, would they affect the ability and willingness of firms to export? These are some of the ways in which alternative methods of pricing might influence the efficiency and structure of the industries that adopted them.

The simplest solution to the problem of determining prices is that recommended by the Monopolies Commission and, by implication, in the Judgment of the Restrictive Practices Court. It consists in proscribing any inter-firm agreement or arrangement and leaving prices to be determined by free competition, each producer setting his own price in independence of his rivals. The genuine merits of this solution are readily apparent. The operation of price agreements, and their public control, requires an administrative machinery which, in terms of the services of lawyers, accountants, economists and the like, represents a genuine social cost. Price agreements, if not subject to public control, may be used to further the interests of those who make them, to the disadvantage of the community as a whole; but public control may itself be abused, either to protect vested interests or to court political popularity. By relying on free price competition, we can avoid these costs and difficulties. This is a substantial advantage to which I give full weight. I shall argue, nevertheless, that price competition is not appropriate to the special conditions of the markets with which we are concerned.

4. *Transformers.*

(i) *Alternative Effects of Abrogating Agreements.*

Let us first consider transformers. First, we have to decide whether the prescription of agreements would be likely to lead firms to compete actively in terms of price. It will be recalled that the agreement between the manufacturers of transformers was held by the Restrictive Practices Court, in 1961, to be contrary to the public interest. The Report from the Select Committee, however, quotes the Generating Board to the effect that 'while the manufacturers have observed the letter of this decision, they have flouted its spirit by adopting a system of price leadership'. Acting under this conviction the Board ordered two large transformers from Canada at prices appreciably below these ruling in this country. The manufacturers objected strongly to this decision; they maintained that the transformer market in Canada was very depressed and saw the Boards' action as an attempt to bring British prices down to similar levels. At the same time, they claimed that the system of price notification that firms had adopted was not equivalent to price agreement, in that it permitted firms to quote low prices if they believed themselves to be competitive.

No fully adequate information is available to me about the present level of prices and profits in transformer production or about the extent of the changes that have taken place since abrogation of the agreement. It is possible, nevertheless, to

sketch out the general picture. The prices of the smaller transformers have fallen markedly and continue to fall; all or almost all the manufacturers appear to sell these transformers at a loss.¹ The prices of the large transformers—those which directly concern us—held up better, at least in the years immediately following abrogation.

These developments are very much what one would expect. In the first place, there is excess capacity in transformer production. A reliable measure of a firm's capacity is difficult to make, chiefly because the maximum volume of output that can be put through the works depends on the 'product-mix', this being the proportions of the total output formed by different sizes of transformers. Not all firms, moreover, make estimates of the capacity they have available. (All the members of the 'Power Transformer Conference' make returns on capacity but not all transformer manufacturers are members). Despite these difficulties it seems safe to say that the demands of the electricity authorities, together with any likely export demand, will leave a substantial margin of capacity unemployed.

In these circumstances, firms are continuously subject to the risk of getting little or no work. The magnitude of this risk varies with the number of firms making each type of transformer, being great for those making the smallest types and less for those making the larger types with which we are primarily concerned. An excess of capacity over demand of even one per cent would make it possible, in principle, for some of the smallest firms making the smaller transformers to be left without work. A 10 per cent excess would make it possible for even large firms to have no orders. Given the electricity supply authorities' system of tendering—which is such that a single order can make a great difference to a firm's annual turnover—it is clear that each manufacturer is under strong pressure to quote a price low enough to obtain some business. It is also clear that firms have an incentive to resist this pressure, because they realise that the total business available to the industry as a whole will not be increased by price reductions.

What we have, therefore, is a familiar oligopoly situation where the outcome depends on the relative strength of two opposing considerations. The larger the number of firms, the greater is the chance that one of them may be left without work; the more likely therefore is that prices will be driven down by the competitive struggle, a limit being set, in the last resort, about the level of variable costs. In the case of the smaller transformers, this is what has happened. With the larger transformers, which are made by fewer firms, prices are more likely to be sustained, if only precariously. Although the business available is insufficient to fill all the works, each producer may expect to get some of it. A sense of common interest may be sufficient to prevent price-cutting, especially if firms keep one another informed as to the terms on which contracts with them are actually placed.

In appraising the effects of proscribing agreements, therefore, it is important to distinguish between two situations, the first in which excess capacity will

¹ These smaller or 'distribution' transformers are made by about fifty firms and sold to Area Electricity Boards. The characteristics of their market create special problems distinct from those associated with the pricing of large transformers and it seemed appropriate to exclude them from discussion here.

result in competitive price-cutting, the second in which it may not. Very broadly, these alternative outcomes can be associated in this case with the markets for the smaller and for the larger transformers respectively, though it would be misleading to draw a sharp line. In the case of the so-called distribution transformers, which are sold by some fifty firms to a dozen Area Electricity Boards, conditions bear some resemblance to the text-book model of perfect competition, and prices have clearly fallen in response to the excess of capacity over demand. In the case of the larger transformers, sold to the Generating Board by a smaller number of firms, there has been a more obvious reluctance to 'spoil the market', but, given excess capacity and the practice of tendering for very large orders, more active price competition can readily develop.

(ii) *Prices Responsive to Excess Capacity.*

Let us take first the situation in which the abrogation of a price agreement does produce active competition in tendering. On the face of it, this may seem precisely what is required; the more efficient firms will be able to undercut their high cost rivals and the general level of profits will be kept low. Given excess capacity, it will be conceded, prices will fall to uneconomic levels, but, in doing so, they will help to bring about the contraction required and thus restore profits to a normal level. This, at any rate, is what the more elementary text book models would lead us to expect; a more careful examination of the situation points to conclusions less simple and less satisfactory.

In the first place, excess capacity is likely to be chronic. Each firm may see its salvation in expansion, which will enable it to reap more of the economies of scale. The fact that the demand for transformers is on a rising trend may give further countenance to this policy, with the result that the industry's total capacity may become even more excessive. Lest the reader consider this situation too perverse, let him bear in mind that the excess capacity with which the industry is at present afflicted, and which so far has shown no tendency to disappear, did in fact develop over a period of steadily rising demand. Nevertheless, it is reasonable to suppose that firms will not for ever persist in such unprofitable courses, that some will leave the industry and others cease to expand with the consequence that capacity will come to equal, or even fall short of demand. What chance is there that these developments would lead, in the long run, to a steady growth of capacity in balance with demand?

To my mind, very little. Losses are indeed likely to check investment and thus bring capacity, for a time, into rough equality with demand; but, given the continuing presence of a large number of competing firms, there would seem to be every reason to expect further bouts of excessive investment. Economists with faith in some kind of tendency to equilibrium may envisage a fluctuating balance between demand and capacity, firms gaining on the swings of excess demand what they lost on the roundabouts of excess capacity. But, in the special circumstances of this market, these conditions need not result in normal profits. Firms would certainly lose, through price competition, in times of slack, but it seems to me unlikely that they would be able to gain very high profits at other times. In the first place, supply conditions are likely to be fairly elastic, firms being able to take on extra work without much rise in marginal costs. But even

although there were bottlenecks, it is difficult to envisage the Generating Board or even the Area Boards deliberately bidding up prices against themselves. No one has yet seen a one-man auction. Normal profits would be compatible with the conditions we are postulating only if excess capacity could be avoided at all times. This is unlikely to be assured and it is undesirable that it should be; the public interest requires that the investment programmes of the electricity authorities are not held up through bottlenecks in the capacity to supply equipment. If peak requirements are to be met, excess capacity must develop at normal times and must be tolerable to the industry.

There is a further circumstance that would make active price competition often incompatible with normal profits even in the absence of unused capacity. Part of the output of the larger transformers is exported and at prices below those ruling at home. It seems to be very generally the case that heavy electrical equipment is sold abroad by all the main manufacturing countries, at prices that approximate more to marginal than to full unit costs of production. The gap between home and export prices is of course evidence that price competition within the home markets of the manufacturing countries is somewhat attenuated. If producers were to fight for domestic contracts in the same way as they fight for foreign contracts, home prices would move down towards the export levels and the profitability of the total output would fall. Many see the differential between home and export prices as proof of our fallen state and would welcome its erosion under the stress of more active competition. But, as far as British manufacturers are concerned, the low level of the export prices of these capital goods is simply a fact of life which neither our industry nor our government has by itself the power to alter. Were our export quotations to move up to the level of home prices, we should fail to export; if our home prices were to move down to the level of export prices, the total business would not be remunerative. This is a conclusion that those most eager to promote price competition in the home market are rarely seen to draw.

Let us now return to the main course of our argument. Given fairly numerous independent manufacturers, faced with a totally inelastic home demand and in active price competition for orders, there will be chronic tendency to excess capacity and low returns. This tendency is unlikely, in the nature of things, to continue indefinitely, but an end to it could be brought, it seems to me, only as a result of change in the structure of the market. The logic of the situation is likely, sooner or later, to lead producers to concentrate production, in the hope that this will both limit the extent of excess capacity and reduce the likelihood that excess capacity will induce firms to cut prices. There is no telling how long this change would take to come about and no assurance that, once it had come about, it would not subsequently be reversed.¹

¹ Of key importance in this connection is the magnitude of scale economies in the production of transformers. If these economies are insignificant then concentration within the industry might prove short lived; small firms would be attracted by the prospects of entering the business in the hope of prospering under the umbrella of the larger producers. Given, that is to say, the maintenance of relatively stable prices by the established firms, even in the face of some excess capacity, there would be a living to be made by the outsider willing to charge a slightly lower price in order to get a full load on this works. Assuming free entry therefore, the viability of a regime of concentrated production and stable prices would depend on the existence of significant scale economies.

(iii) *Prices Unresponsive to Excess Capacity.*

We have now, in effect, moved on to the second of the alternative situations that we proposed to analyse. We have been assuming that, in the absence of a price agreement, active competition would cause prices to be flexible and to fall in response to excess capacity. Now we assume that the producers, chiefly because they are less numerous, succeed in maintaining stable prices in the face of a changing balance between demand and capacity. This of course is the situation in the generality of manufacturing industry. When the demand for cars suffers temporary decline, their prices do not fall to the level of variable costs; the total burden of adjustment is usually met by a fall in output. For adjustment to take this form, there is no need for manufacturers to make an agreement; each of them takes it for granted that price reductions would without delay be noted and matched by competitors with the result (given the prevailing elasticity of demand for cars) that all would stand to lose. The circumstances of the markets for heavy electrical equipment, however, are vastly different. The size of individual orders relative to a firm's turnover puts management under very strong pressure to cut prices in order to be sure of getting work. Where the largest and most advanced types of equipment are concerned, to miss an order does not only produce unemployment of men and machines; it may also cause firms to fall out of the race in technical development. In order to be able to tender for the most advanced type of equipment, firms require experience to draw upon and this experience cannot be acquired if they fail to get orders. The willingness of firms to cut prices at the risk of 'spoiling the market' would also be influenced by the fact that competitive prices, instead of being 'posted' as with cars, would be quoted in closed bids. Firms would not normally know what prices their rivals were quoting and might be tempted to reduce their quotations substantially in order to make sure that they were not undercut. It is of course open to firms to exchange information about prices at which contracts have actually been placed, so that it would be possible for them to know, after the event, whether rivals were in fact reducing their bids below some normal level. This arrangement might go some way in inhibiting firms, eager to increase their share of a fixed market, from starting a price war.

These considerations suggest that price stability, based on the wish not to spoil the market, is possible but by no means assured in the circumstances we are considering. Let us now ask whether it would be in the public interest.

If prices can be maintained, in the face of temporary falls in demand, then producers certainly enjoy a more stable prospect than they would have otherwise and will be more willing to create facilities large enough to meet their customer's peak requirements in the knowledge that the associated excess capacity, in normal times, will not bring them heavy losses. Only very grudging recognition, if any, is usually given, in this context, to the benefits that society as a whole can derive from a more predictable business environment. If the context is economic planning, and the need for a more stable rate of investment, then most people are prepared to see virtue in arrangements that enable firms better to insulate their expansion plans from short-run fluctuations in the balance between demand and capacity. But there is a strange reluctance to perceive

that arrangements or conventions leading to short-run price stability fulfil just this shock-absorbing function.

But there is another side to this matter. Can one reasonably assume that price competition between firms, in these circumstances, will be suspended only in conditions of excess capacity? Is it not possible for mutual tolerance to be so developed that firms will refrain from use of the price weapon to compete for larger market shares even when demand rises above capacity? The force of rivalry might or might not be strong enough to ensure that abnormally high profits were rapidly removed by competition. In the case of large transformers, where there are a dozen producers, it may seem unlikely that a struggle for market shares could for long be in abeyance; but where there are only three or four companies—as with turbines and switchgear—mutual accommodation is less unlikely. Abnormally high profits might, in the long run, induce entry by new suppliers, but entry in these fields is not sufficiently easy for this to be an adequate discipline. My own view is that neither theory nor experience enables us to say, with certainty, whether the producers of heavy electrical equipment would or would not, in the absence of agreements between them, have the power consistently to maintain prices such as yielded abnormally high profits. What one can say is that the proscription of agreements cannot be relied upon always to give either the electricity authorities or the public at large the *assurance* of reasonable prices.

Here then we have a dilemma that those who advocate merely the abolition of agreements have to face. Either the abandonment of the agreements results in active price competition and flexibility of prices in response to the changing balance of demand and capacity, or it does not do so. In the former eventuality, prices are likely to be chronically depressed, thus leading to an undesirable shrinkage of capacity or to a movement towards further concentration. In the latter case, the purchasers and the public lack sufficient assurance that profits will not be unduly high. These are the considerations that lead me to conclude that the mere abolition of inter-firm agreements, whether or not it results in prices flexible in response to supply and demand, does not ensure suitable regulation of the markets for transformers. But before examining the available alternatives, let us turn to consider the working, in the absence of price agreements, of the markets for turbines and switchgear.

5. *Turbines.*

(i) *Special features of the market.*

Those features of the transformer market that made price competition unsuitable are to be found also in the market for turbines and in a much more marked degree.¹

The manufacture of turbines has of necessity to be on a very large scale. Very large investments are required in terms of research, design and training as well as

¹At the time of writing, there were three producers of turbines, each with its own design. But there has been talk of a desire, on behalf of the Generating Board, to have only two designs. This desire could achieve fulfilment only through structural change in the industry, but I lack the information required to discuss this matter. Whatever changes might be promoted seem likely to weaken the case for price competition yet further.

fixed equipment. The rate of technical advance in the industry has, as remarked earlier, been particularly rapid and the firms operate continuously at the frontiers of new development. Overheads (taken to include the teams of designers and other skilled staff) are high relative to turnover, and are, in effect, completely specific to manufacture of turbines. The firms concerned do all the research and development relating to the equipment they produce and bear the costs of rectifying it when it fails to work.

Of central significance, for our purposes, is the magnitude of individual contracts in this industry, the value of which, at £20 mill. or more, exceeds the average annual turnover in turbo-alternators of any one of the firms.¹ The size of order is to be explained, in this case, not in terms of the buyer's preference for inviting firms to tender for a bunch of different items, but by the remarkably rapid increase in the scale on which it proves possible and economical to build single turbo-alternator sets. This development, moreover, is not yet complete and we may envisage even larger sets, and therefore larger, and to that extent fewer, orders in the future.

A nice balance between demand and capacity is no more possible to maintain in this market than in the market for transformers. The electricity authorities cannot avoid some fluctuation in their requirements, nor can the producers hope to expand their total capacity at a continuously appropriate rate. In addition, excess capacity is likely to develop, in the absence of a strong upward movement in demand, simply because rapid technical advance has made it possible to generate the same amount of electricity, from larger sets, with reduced inputs of capital and labour in turbine construction.

These special circumstances, taken in combination, are very unfavourable to effective regulation by price competition. Failure to obtain a contract will certainly burden a firm with heavy financial losses and may indeed threaten its survival as a producer of turbines. Given that an interval of four years may elapse between the ordering and final commissioning of a turbo-alternator set, it is apparent that management will be obliged to attend, not to the current load on the works, but to the chances of getting work in the future. Each firm will be well aware of the disastrous effect on profits of competition, in terms of price, for a share in the total business; at the same time, it cannot fail to realise that failure to obtain an order may put it out of the race.

The buyer also will be faced with its own dilemma. Presumably, according to the advocates of regulation by price competition, the Central Electricity Generating Board will award a contract to the firm that makes the lowest bid, allowing for differences in performance between rival equipments. But is it really conceivable that it could thus ignore the effects of its actions on the structure of the industry? It is perfectly possible for the distribution of its orders to cause a firm to be starved of technical experience or to be obliged to give up production for good. To place contracts blindly, in these exceptional circumstances, merely according to the lowest bid, would be to credit market forces with quite magical authority.

¹ Twelve years ago, orders rarely exceeded £2 millions in value. It is worth observing that circumstances have therefore changed in this respect since the Monopolies Commission studied the industry—changed moreover in a way less favourable to the suitability of price competition.

I find it very difficult to predict what the effects of abrogating the price agreement between the turbine makers might be. It is worth while, as with transformers, to distinguish between two possible outcomes, the one in which prices fall in response to excess capacity and the other in which they do not.

(ii) *Alternative effects of ending an agreement*

Prices could fall sharply, given the threat of some excess capacity, if the firms strove, by endeavouring to under-cut their rivals, to get work. The export trade, it should be noticed, could not be called upon to redress the balance caused by a falling off of demand at home, for the prices at which it is conducted are below full cost. Inevitably, if this were to happen, firms would suffer losses; investment would be checked and, if the situation were sufficiently grave, the currently available productive facilities might be contracted with an associated dispersal of design teams and other specially trained staff. Expenditure on research and development seems to me one of the forms of investment that would suffer a check or an absolute reduction, although the Restrictive Practices Court denied, in their judgment on the transformer case, that this kind of result would be likely to happen. The Court apparently took the view that, if conditions were to become more competitive, firms would be obliged to spend more rather than less on research. The superficial plausibility of this argument rests on an ambiguity in the term 'competitive'. The market for turbines, even with agreed prices, is already highly competitive, in that firms have to strive hard, with the help of sustained investment in research and development, to stay in the technological race. Were the price agreement to be given up, the market would not become more competitive in this sense; the chief effect would be for receipts to fluctuate more widely (given periods of excess capacity) at a lower level. The decision as to how much to invest in research and development (never easy) will rationally depend upon the magnitude of the expected yield. If the general profitability of turbine business is to fall, then the yield from investment in research, aimed at securing for the firm a larger share of this business, will fall likewise. The Restrictive Trade Practices Court, in arguing as they did, would seem to believe that a man could be induced to increase his stake in a lottery provided only the value of the prizes were lowered.

It is theoretically conceivable that the check to investment, occasioned by poor returns, could ultimately so reduce the volume of capacity relative to demand as to restore profitability. But, for reasons given in the discussion of transformers, this result, even if it could be assured, would not be in the public interest.

Let us now assume, alternatively, that the producers would not make competitive price reductions when capacity came to exceed demand. Their resistance to the temptation to use the price weapon might find strength merely in a keen sense of common interest, but might be further re-inforced by the belief that the buyer would in any case choose to allocate business in such a way as ensured the survival of all three firms. In this case the disturbances set up by price instability would be avoided, but it is still necessary to ask, as with transformers, whether the public interest would be sufficiently safe-guarded. The fact that we have here

only three producers, rather than the dozen found in transformer production, strengthens the chances that mutual accommodation might serve not merely to stop prices falling to an unduly low level but to keep them permanently higher than they should be. We need not take a view as to whether firms would in fact choose to exercise any joint monopoly power; the point to be noted is that there would be no automatic competitive force sufficiently strong to *ensure* that they did not.

These considerations seem to me to suggest that competition would fail to be an efficient regulator of prices in this market irrespective of the alternative assumptions one may prefer to make as to the outcome of abandoning the practice of agreement.

6. *Switchgear.*

The market for switchgear differs little, in basic structure, from that for turbines, but it is marked by a more developed system of co-operation between the four producers and between them and the Central Electricity Generating Board.

Let us begin by noting that the cost of supplying electricity must depend upon the rapidity with which potential gains from improved technology can be realised through their embodiment in equipment actually in use. There are in fact substantial gains to be had in particular from increasing the power load with which a transmission system can deal, and the rate at which this can take place depends on the time taken to get the more advanced types of switchgear into service. This circumstance creates in itself the need for close co-ordination between the investment plans of the Generating Board and its suppliers.¹

Under the current arrangements, the plans of the two sides are co-ordinated at several stages. A forecast of the Board's switchgear requirements is made known about a decade in advance, thus enabling the manufacturers to take certain steps—such as acquiring factory space—that are an essential preliminary to future production plans. The second and most important stage is reached when the Board makes a bulk allocation of work between the manufacturers and thereby enables them to make their own production plans as well as to inform their own suppliers (the makers of porcelain and bushing) of their projected needs. The point to note here is that the arrangement permits firms to go ahead with their programmes without having to wait for the Board's requirements to be articulated in detail. Binding contracts are entered into only later and on the basis of prices listed on a schedule agreed between the manufacturers.

I find it hard to conceive that this procedure, or any other procedure equally able to save time, would be fully compatible with competitive price tendering. If the allocation of work were to be determined by competing bids, then the Board would have to be in a position to specify its needs in appropriate detail. The producers would then take longer to learn of the amount of work for which they had to prepare, with a resultant delay in dates of commissioning. It may be

¹ The reader will recall that Scotland and Northern Ireland have their own separate electricity generating authorities. What is said, for brevity, about the Central Electricity Generating Board should be taken as applying to these bodies also.

asked why the same degree of expedition could not be achieved by the Board's making its plans earlier, but, were this to be done, these plans would be based on less information about future demand and on a less advanced technology. Also relevant is the fact that detailed specifications are at present decided upon, not by the Board alone, but by the Board and the appropriate manufacturer after the bulk allocation of work.

It is worth noting that the system of bulk allocation enables the Board, if it chooses, to distribute work among the firms in accordance with their relative advantages in capacity, skills, experience and the like. Competitive bidding, of course, is itself a system of allocation which, ideally, ensures that orders go to the firms able to execute them most cheaply. It seems doubtful to me, however, that it could in practice promote as efficient a distribution of work as it is possible to achieve directly, with only one buyer and four sellers. Different firms have different methods of costing and may have different ideas about the bids that others will submit, so that the prices quoted for particular jobs need not closely reflect the relative ability of firms to undertake them.

Work has, in the past, been distributed between the firms in such a way that intertrading has had to take place on a fairly considerable scale. Up to 40 per cent of the value of a particular contract obtained by one of the firms may be represented by components bought from the others, the prices paid being those listed in the agreed schedules subject to a handling discount. Where there are significant economies of scale in the production of particular components, this arrangement has much to commend it, but I cannot believe that it would for long endure under a regime of competitive pricing. In the absence of the agreement, firms would be free to vary both the prices they quote to the Board, for main contracts, and the prices they quote to each other for the supply of components. Thus a firm competing for a main contract could demand prohibitive prices for the supply of essential components required by its rivals. If all four firms had given hostages to each other in this way, then one might hope that they would refrain from any attempt thus to hold each other up to ransom. But at present there is one firm nearly self-sufficient and therefore in a stronger position for this type of warfare than the others. It seems to me, therefore, that the present measure of rationalisation, let alone further extension of it, would clearly be prejudiced by the introduction of price competition. Each firm would be likely to strive for self-sufficiency, as far as its rivals are concerned, or run the risk of being put out of business. This consequence of price competition, as most of the others, cannot be predicted with certainty; it would be foolish to imagine that we are able to identify simple and dependable links between cause and effect in affairs of this kind; new or unperceived circumstances can easily upset one's speculations. The point I make is that, on the face of it, price competition is incompatible with rationalisation of the kind described; it is up to the protagonists of such competition to show either that this incompatibility is illusory or that the rationalisation achieved, or capable of achievement, is not worth preserving.

Further co-operation takes place, between the buyer and the producers, and between the producers themselves, in the development of standardised equipment. The aim is to provide components that are interchangeable, thereby

reducing the average quantities that have to be held in stock, and at the same time incorporate the best ideas of the four design teams. I am unable to estimate the gains from collaboration of this kind, but there seems little reason to doubt that the Generating Board, which took the chief initiative in this matter, regards them as valuable. What concerns us here is the compatibility between this exchange of ideas and the practice of price competition. Although it would be perfectly possible for firms to compete in terms of price while co-operating in development, I cannot believe that they would be likely to do so for long. There are bound to be times at which some firm is convinced that it has less to get from an exchange of ideas than it has to give and succumbs to the temptation to make use of this advantage in the competitive struggle. The temptation exists, of course, even under the price agreement, but abrogation, by obliging the companies to struggle for their share of the market, would greatly strengthen it. It is likely, moreover, that firms would seek some shelter from the full vigour of price competition by developing non-standard products which, by the very fact of being incapable of substitution, have a low cross-elasticity of demand.

7. *The Summary case against Price Competition.*

The unsuitability of price competition, for the three markets under discussion, seems to me the consequence of several quite particular circumstances taken in conjunction. It is certainly not my intention in this paper to offer a general apology for restrictive agreements; circumstances alter cases and, in this field, can do so decisively.

To sum up, the policy of promoting price competition, in the sale of heavy electrical equipment, is inappropriate for two main reasons.

In the first place, it will fail to attain its own objective. The size of single orders, the inelasticity of demand, the gap between marginal and average costs and the predominance of one buyer, all taken together, make it impossible to combine normal profitability with price flexibility and periodic excess of capacity over demand. Something has to give. Normal profitability must be assured, if the firms concerned are to stay in the business. Excess capacity could be completely avoided, if indeed at all, only at great social cost. Price flexibility is avoidable only if firms make an agreement or are able to refrain from active price competition even without one; in this latter eventuality, however, there will no longer be any guarantee that prices are not kept unduly high.

Secondly, price competition would prejudice the attainment of other objectives important in this context. It requires only a very limited faith in the principle of planning as such to recognise that the particular character of the markets which concern us offers a special opportunity for the deliberate co-ordination of plans. Such co-ordination is made difficult, in the generality of industry, by the number of firms on both sides of the market; but the domestic requirements for turbines, transformers and switchgear depend on programmes made by a single nationalised electricity authority and framed several years in advance. Co-operation between the suppliers and the Generating Board has developed furthest, I believe, in switchgear, where, as we have seen, there is a system of bulk allocation. The utility of such co-operation, in matters of design and devel-

opment as well as the planning of investment, seems to me something no reasonable man could deny; in the nature of things, it would seem appropriate for the manufacturers and the Generating Board to work together as a team. I am indeed inclined to think, as an outsider, that co-operation might be closer, but even its maintenance would be threatened by the practice of price competition. Thus the real problem before us is to devise arrangements that permit the manufacturers and their customer to work together as a team without sacrificing the objectives for the attainment of which price competition, in other circumstances, is a useful device.

8. *The Alternative to Price Competition.*

The alternative to price competition is agreement, but I do not wish to suggest that we should be satisfied with agreements such as have been in force during the last few decades. The electricity supply authorities have surely a right—indeed, a duty—to insist that the price they pay for equipment is not such as provide the manufacturers either with abnormally high profits or with a shelter for inefficiency. The agreements in operation hitherto have not given this guarantee; quite apart from whether they did promote high prices and costs—and on this we need not express an opinion—they offered the buyer no assurance that they did not do so. Neither, I have argued, would price competition provide this guarantee; some other way has to be found of providing the purchaser and the public with the assurances to which they are entitled.

It might at first be supposed that the pricing policy of the firms operating an agreement would be subject to two forms of check or sanction, the first provided by the threat of new producers entering the market, the second by foreign competition. In fact, however, it is very difficult for new firms to enter the heavy end of the industry, in which much capital and experience is required. Nor would it be expedient for the Generating Board to purchase equipment from abroad. Obviously the balance of payments would suffer, and, in any case, the prices quoted by foreign suppliers would not provide a standard for home producers, as export prices seem generally to be below the level of full costs. We have to conclude, therefore, that there are no natural checks such as would prevent a price ring from abusing its power.

The need is clearly to devise an agreement to which both the Generating Board and the manufacturers are party and into which appropriate safeguards have been built. This could be done in a variety of ways, the details of which ought to be the subject of another paper. Clearly the level of price must be related to production costs, these being calculated as a weighted average for the firms concerned and set so as to provide a rate of return on capital comparable to that obtained in industry generally and not less than is required to finance expansion and provide a normal yield to shareholders. A fairly loose form of control would seem preferable, prices being set for a period of—say—three years and revised subsequently if they did not provide the agreed rate of return on capital. The firms would be obliged to employ the same accounting techniques and their calculations would have to be submitted to some independent body, neither the producers nor the purchaser being left as judge in their own cause.

Negotiations along these lines have in fact, I believe, been under way between the parties concerned, but I am not informed as to their progress. Needless to say, there are important issues of principle and of practical administration that require to be resolved. One of these is the appropriate allocation of costs between home and export sales.

First, in the production of heavy electrical equipment there are important overhead costs the allocation of which, between home and export sales, is essentially arbitrary. Capacity installed to make switchgear for the CEGB for example may be used at a later state of its life to produce for export. The development work done to produce ever larger turbo-generators will likewise serve both the home and export markets. In so far as these costs are concerned, any net contribution to them that the manufacturers can obtain from exports will reduce the level of home prices necessary to secure a reasonable return overall. Even if almost the whole of these overheads were attributed to the cost of producing equipment for the home market, it could not be said that the home customer was subsidising exports; without the exports he would have to pay more.

Secondly, it appears to be the case, throughout the world generally, that the domestic price of heavy electrical equipment exceeds the export price. Foreign manufacturers, that is to say, rely on their home markets for recouping the greater part of their overheads. Whether or not we approve of these arrangements, they are a fact of life and the British industry cannot hope to compete overseas unless it operates similarly.

Thirdly, there are no statistics known to me that can provide us with the return earned on capital, in industry generally, on home sales alone. The available figures relate to the return on capital on total business. This is important in that the permitted rate of return on the production of heavy electrical equipment—assuming that this were to be employed in fixing prices—would have to be related to the returns in other industries. If like were to be compared with like, then it is the manufacturers' return on their total sales of the electrical equipment in question that must be considered.

For these three reasons, it seems to me that the prices fixed in any agreement between the industry and the supply authorities ought to be such as afford a normal rate of return to a firm of normal efficiency on its total business, home and export, subject to the condition that export prices are not actually below marginal costs.

A further problem concerns the computation of the capital employed by the firms concerned and, more generally, the structure of production in the industry. The prices set ought to be such as to compensate producers for having installed an amount of capacity sufficient to meet the buyer's needs when at their peak even although that capacity is not currently in full use. But it is possible for excess capacity to exist to an extent greater than that required to meet peak requirements, through lack of co-ordination between the firms' investment plans, technological change, a falling off in export orders or for some other reason. The Generating Board has no obvious obligation to take this particular burden off the firms' shoulders, and yet it may in practice be difficult to measure

the quantity of excess capacity attributable to one circumstance rather than another. I can see no hope of precise solutions to this problem, but it should not be so difficult for reasonable men to reach a compromise appropriate to the particular circumstances of each case.

These considerations lead us to the question of the structural efficiency of an industry as a whole. Let us assume for example that it could be established, beyond reasonable doubt, that the number of, say, transformer makers was too great to permit full exploitation of all the available economies of scale. Were this the case, the firms would have an incentive to form larger units in order to reduce costs, but it could be that this incentive was not strong enough to counter the effect of inertia and the desire to maintain independence. In these circumstances price competition does offer some remedy. Firms that did merge would strive, by price reductions, to enlarge their share of the market and would thereby force rivals to follow their example; even the threat that this might happen might encourage firms to exploit such scale economies as became available. A general fall in prices, produced by competition in conditions of excess capacity, would at least help to concentrate the minds of manufacturers on the need to improve their position.

Under these conditions, it would be hard to justify any agreement that left firms, on average, with a normal return on capital employed and thereby prevented an unsatisfactory structure from registering itself in the way most likely to lead to its improvement. It ought to be understood that an industry is not entitled to enjoy the legal right to operate a restrictive agreement that serves to perpetuate inefficiency. But it would be wrong to turn to price competition as the sure way of bringing about desired rationalisation. No doubt poor returns, in the long run, will reduce an excessive number of producers, but they may also weaken the incentive and the ability, even for the most efficient firms, to invest in the development and installation of up-to-date productive equipment. It is conceivable that general impoverishment might prove the only way, in practice, of forcing the required changes, but I should hope that a less costly and more rapid method might be found in cooperative action in which both the manufacturers and the electricity supply authorities would take part.

A policy of agreed prices, based on a weighted average of the firms' costs, is open to the further objection that it ensures only that a company's profits are commensurate with its efficiency relative to rival producers as contrasted with its efficiency relative to industry as a whole. And the point could be made, in this connection, that three or four producers, as in both turbines and switchgear, represented a very small sample. The most obvious reply to an argument along these lines is that, given the difficulty of entering these markets and the objections to buying from abroad, competition would do no better; each firm would fare according to its efficiency relative to its two rivals irrespective of the level of efficiency of three firms as a whole. It is conceivable that, in fixing agreed prices, one might even do better, in that the buyer might be able to produce evidence of costs in other countries or to make his own estimates of what costs, employing the latest equipment and techniques, ought to be.¹

¹ Sir Robert Shone, in a comment on an earlier version of this article, pointed to the steel industry's experience of price control based on calculations of this kind.

Whether such developments would eventually be feasible, I cannot readily judge, but it would be wrong to rule them out of consideration. In a similar way, the buyer could claim that any very marked spread between the costs of the firms concerned was *prima facie* evidence of structural inefficiency or of the use of different accounting techniques.

Some readers, dismayed by the number and difficulty of the problems bound up with the choice of an agreed level of prices, may feel that their sympathy for the policy of price competition is now being re-kindled. But reliance on such a policy, although it might encourage us to forget about these problems, would not ensure their solution. It would not, I have argued, guarantee that profits were neither persistently above nor persistently below those earned generally; it would not automatically correct any structural inefficiency, and it would not ensure that firms were in a position to compete, by differential pricing at home and abroad, in the international market as it currently exists.

Other readers may blame me for not following, to their proper conclusion, the logic of my own arguments. They may see the plurality of producers as a permanent obstacle to the co-ordination of investment plans, the importance of which I conceded, and recommend that not only the generation and distribution of electricity, but also the manufacture of the equipment used in these processes, should be put under the control of a state monopoly. Such a proposal can appear reasonable, however, only if we focus on some of the requirements of economic efficiency to the exclusion of others no less important. Given that we cannot hope to know, in advance, the forms of research and development that will prove the most fruitful, the designs that will be most effective, the techniques of organisation and management that will show themselves superior, the decentralisation of decision-making provided by a plurality of firms is a sound strategy. Nor must we imagine that, price competition being appropriate, all forms of inter-firm rivalry serve no useful social purpose. We should see ourselves not as obliged to choose between competition and monopoly but as confronted with the problem (an economic problem quite strictly) of devising arrangements that provide, even approximately, an optimum balance between competition and planning, freedom and order. We should aim at getting (as far as is possible) the best of both worlds.

*St. John's College,
Oxford.*

EXHIBIT IV

AGREEMENT BETWEEN THE CENTRAL ELECTRICITY GENERATING BOARD AND
THE GRID SWITCHGEAR MANUFACTURERS

Parties to the Agreement

1. The parties to this Agreement are the Central Electricity Generating Board and the Manufacturers of Grid Switchgear comprising Associated Electrical Industries Limited, The English Electric Company Limited, The General Electric Company Limited and A. Reyrolle and Company Limited (hereinafter referred to as "C.E.G.B." and "G.S.M." respectively).

Scope of Agreement

2. (a) The agreement covers the manufacture and installation by the four G.S.M. firms for C.E.G.B. of 400 kV, 275 kV and 132 kV switchgear.

(b) In the manufacture of grid switchgear, the G.S.M. accounts disclose that the turnover:capital employed ratio has been in recent years about 1:1 so that profit on sales is broadly equivalent to profit on capital employed.

(c) The agreement will run for an initial period of five years from 1st January 1966 provided that:

(1) the operation of the pricing mechanism of the agreement shall be reviewed after two years to ascertain whether so far as the actual (as distinct from notional) average profit earned by the two lowest cost producers at each voltage exceeds $16\frac{1}{2}\%$ on sales it is likely to be reduced to that level over a reasonable period, and also whether the average annual return over the five year period of the four G.S.M. firms on their grid switchgear business with the C.E.G.B. is likely, as expected by the parties to the agreement, to be below $16\frac{1}{2}\%$.

(2) if following the review referred to in (1) above the C.E.G.B. on the one hand or the G.S.M. on the other are not satisfied that the agreement is operating or is likely to operate in accordance with the intentions of the parties, either party may give notice to terminate the agreement with effect from 1st January 1969.

(3) if notice to terminate the Agreement is so given it shall continue to apply in respect of contracts already placed but not to any future contracts.

Determination of Prices

3. A uniform method of ascertaining costs, proposed by Cooper Brothers & Co., hereinafter referred to as "the independent accountant" is annexed to this Agreement (Annex I) and has been approved by the parties.

4. Until such time as adjustments are determined under Clauses 5 to 9 below, all new contracts will be placed at the net selling prices ruling at 31st December 1965 and incorporated in the agreed Schedule of Prices subject only to modification of such individual prices as may be agreed between the parties.

5. (i) At the end of each calendar year, each manufacturer will submit to the independent accountant a certified statement showing the total Grid Switchgear invoiced by him during that year for C.E.G.B. contracts together with the resultant profit. This return will show separate figures for 132 kV, 275 kV and 400 kV contracts and initially for the year 1964 as well as 1965 for 132 kV and 275 kV switchgear.

For the purpose of this clause the term "invoiced during that year" is to be interpreted as relating to contracts for gear which during the year concerned have reached the point at which invoices for 95% of the contract price have been submitted (i.e. excluding retention money) and the invoice prices shall be increased in the ratio 100/95.

Where major items of equipment have been sub-contracted between members of the G.S.M. the following procedure shall apply in preparing the above returns:

(a) The subcontractor will include in his costs the cost to him of the sub-contracted items and in his invoiced price the price he obtained from the main contractor.

(b) The main contractor will include in his cost return the cost of handling and engineering. In his contract price return he will include the difference between the price he received from the C.E.G.B. and the price he paid to the sub-contractor.

The term "major items of equipment" comprises circuit breakers, current transformers, voltage transformers, isolating and earthing switches and line traps.

The certified statement referred to above will show not only the actual invoice values, ascertained costs and resulting profits or losses but also the notional sales values, ascertained costs and corresponding adjusted profits or losses which would have resulted on these contracts if the contracts had been invoiced at the schedule price level ruling for tenders during the year. 5.(ii) When the independent accountant has received the returns under (i) above he will proceed in accordance with the annexed terms of reference (Annex 2). He will aggregate the sales and also the profits of each manufacturer over a three year period to which the return under 5(i) relates and the two previous years. For this purpose the sales and corresponding profits will be those which would have resulted if the invoices relating to the contracts for all three years had been invoiced at the schedule price level ruling during the third year. The independent accountant will then identify the two manufacturers (not necessarily the same for each of the three voltages) who, on this basis of computation of the profits, would have earned over the latest available three years the greatest percentage profit margin in respect of each of the three voltages. He will then summate the returns of these two manufacturers for the three years and ascertain the percentage profit margin for the three years on their combined sales to the C.E.G.B. at each of the voltages concerned. The returns of the two manufacturers with the lowest percentage profit margins for the three years will be ignored but they will nevertheless be subjected to the price adjustment set out in Clauses 6 and 7 below.

However, the first calculation to be made under this sub-clause shall be in accordance with Clause 9.

A similar calculation will be made using actual invoice values and resulting profits or losses and the percentage profit margins both actual and notional as ascertained for each of the three voltages will be advised to the C.E.B.G. and the G.S.M.

5.(iii) The G.S.M. agree to give the independent accountant such information and explanations as he may require.

6.(A) Unless otherwise agreed between the parties, prices in the agreed schedule of prices used for the preparation of tenders and for contracts placed during the calendar year following the year to which the returns under Clause 5(i) relates will be reduced by half the percentage, if any, by which the notional profit margin ascertained under Clause 5(ii) for the particular voltage for the average of the three previous calendar years has exceeded the agreed profit margin of 16½%, the schedule of prices so modified becoming the agreed schedule of prices.

Provided that if the notional percentage profit margin of one of the two producers showing the highest notional rate of return under Clause 5 (ii) shall be lower than the agreed profit margin, then no reduction will be made in the schedule of prices. Any such reduction shall, in any case, be limited to the difference between—

(a) the notional rate of return of the lower of the two highest margins identified under Clause 5(ii) and

(b) the agreed profit margin.

Any limitation in price reduction arising from the proviso in the previous two sentences will be advised by the independent accountant to the C.E.G.B. and G.S.M.

6.(B) For the purposes of the calculations to be made under Clauses 5, 6 and 7 of this Agreement there shall be eliminated from the contract and invoice prices any amount arising from the operation of the contract price adjustment clause referred to in Clause 11 of this Agreement and the same amount shall be eliminated from the relevant costs. Any percentage adjustment made to the prices under the provisions of Clause 7 below shall not be made to that part of the price which represents the contract price adjustment referred to above.

6.(C) The agreed Schedule of Prices shall be expressed as an index and the price level at 31st December 1965 shall represent 100. Adjustments to the index shall only be made by reference to adjustments arising under Clause 6(A). Any adjustments made to the Schedule of Prices under the provisions of Clause 10 of this Agreement shall not affect the index. For the purposes of making any actual or notional adjustments to contract or invoice prices under Clauses 5, 6 and 7 by reference to the level of the agreed Schedule of Prices the adjustment shall be made by way of a percentage reduction based on the movement in this index of schedule prices.

7. The prices for all invoices, in respect of contracts covered by this Agreement, rendered to the C.E.G.B. by the G.S.M. for the particular voltage during

the calendar year following the year to which the return under Clause 5(i) relates shall be reduced to the schedule price level used for the preparations of tenders during that calendar year.

8. In addition to the review provided for under Clause 2(o) (1), the C.E.G.B. and G.S.M. will also review the operation of the Agreement from time to time with the intention of making appropriate changes in the event of:—

(a) any material change of circumstances (e.g. merger of two or more manufacturers or the development of basically new types of switchgear);

(b) the actual (as distinct from notional) average profit of the two most profitable manufacturers at any voltage failing to exceed 16½% in three successive years;

(c) there being a significant variation in three successive years in the relationship of capital employed to turnover from the ratio of 1:1 which has pertained in recent years so that profit on sales ceases to be broadly equivalent to profit on capital employed.

9. The first cost returns will be in respect of the calendar years:

1964 and 1965 for 132kV and 275kV (early in 1966)

1965 and 1966 for 400kV (early in 1967)

and the first adjustments to prices based on such returns will be as follows:—

132kV and 275kV: 1966 for all invoices and schedule prices used for tenders and new contracts.

400kV: 1966 and 1967 for all invoices, 1967 for schedule prices used for tenders and new contracts.

10. Schedule Prices will also be adjusted for variations in labour rates, materials, etc. as agreed between the C.E.G.B. and G.S.M.

Other Conditions

11. All contracts will be placed in accordance with standard Conditions of Contract agreed between the C.E.G.B. and B.E.A.M.A. The C.E.G.B. and the G.S.M. agree to negotiate a contract price adjustment formula consistent with this Agreement for application to contracts completed after 31st December 1966. Meanwhile the existing formula will apply.

12. If requested by the C.E.G.B. the G.S.M. will quote competitively as between themselves for 15% of C.E.G.B. requirements for 132kV switchgear taking one year with another. Any orders placed as a result of such competition will be excluded from the other provisions of this Agreement.

13. The C.E.G.B. do not undertake to order Grid Switchgear exclusively from the G.S.M.

ANNEX I

GRID SWITCHGEAR

Compilation and Presentation of Comparable Costs of Grid Switchgear

1. The following paragraphs set out the basis on which costs of grid switchgear should be compiled and presented.

I. COMPILATION OF COSTS

Materials

2. The quantity of material used in manufacture should include manufacturing scrap where identifiable with individual contracts, and would be obtained from the job cost account which would be compiled from material requisitions issued and charged to the job. Scrap, arising during the course of manufacture, not identifiable with individual contracts should be charged to works overheads. In order to verify that all requisitions have been charged, the job costs should be compared with the material specifications. The material requisitions should be priced at cost and there should be no addition for handling charges. Where castings are produced in the member's own foundry, the cost charged as materials should include the direct labour and overhead costs of the foundry.

3. Where material is purchased in a rough machined state from outside suppliers the charge to materials will include the labour and overhead charges for the rough machining.

4. The realised value of scrap should be credited to the material cost of the job where practicable or alternatively to general works overhead charges.

5. Any excess material issued for the job should be returned to stores and credited to the material cost of the job.

6. Where items are manufactured in other departments or by subsidiary companies the transfer value thereof should be included as part of the cost of

materials. The transfer value of such items should be cost unless the department or subsidiary company concerned supplies to third parties in the normal course of business in which case the transfer prices should be equivalent to the prices charged to third parties.

7. Any trade discounts or rebates directly applicable to the materials used in the product should be credited to the material cost. Any other discounts received should be credited to administration and selling expenses.

Direct Labour

8. Direct labour may be defined as the work engaged in altering the form or shape of materials in fabricating or processing. The direct labour cost should be based on whichever of the following bases is appropriate:

(a) The piece work prices paid plus the national award or cost of living bonus, and any incentive or production bonus paid to direct operatives.

(b) The piece work times allowed evaluated at the budgeted labour cost per hour, plus the national award or cost of living bonus related to the hours worked, and time saved at the bonus rate per hour and any incentive or production bonus paid to direct operatives.

(c) Where day work rates are paid the costs should be based on the day work rate, which would consist of the basic rate per hour plus national award and the lieu bonus rate. This consolidated rate should be applied to the hours charged to the job. Any incentive or production bonus paid to direct operatives should be included in the direct labour cost.

9. Where piece work prices or times allowed include the cost or time for setting by the operative this should be included in the direct labour cost. Where setting is performed by a setter the cost should be charged to the job where possible but otherwise should be included in the general works overheads. All other labour engaged in supervision, servicing, transporting materials including crane men and slingers, and general labouring should be included in the general works overhead charges.

Overhead Expenses

10. The overhead expenses should be based on budgets for the period of production and where necessary should be adjusted to reflect normal activity i.e. 80% of single shift working plus normal overtime plus double shifting of some key machine tools. If Budgets are not used then the latest available financial accounts should be used and adjustments made for any fluctuations in prices and wage rates between the period of production and the period of the financial accounts and should reflect normal activity.

11. The overhead expenses should be segregated between—

(a) General Works Expenses (paragraphs 12–17).

(b) Administration and Selling Expenses (paragraphs 18–21).

(c) Packing Expenses (paragraph 29).

(d) Site (paragraphs 22 and 23).

(e) The Selective Employment Tax should be regarded as an overhead expense and should be segregated between the classes of overhead expense as set out above. Any refunds or premiums received should be regarded as a reduction of the overhead expenses.

The type of expenses normally shown under groupings (a) (b) and (c) is shown in appendix A attached.

General Works Expenses

12. The general works expenses should be allocated between departments, shops or cost centres. Where possible, expenses should be directly allocated to the department, shop or cost centre and where that is not possible reasonable arbitrary bases of apportionment should be used for example—

Type of expenses

Rent, rates
Lighting
Heating
Power
Maintenance of buildings
Depreciation of plant
Gas
General labouring

Basis of apportionment

Floor space occupied
Wattage of lamps
Cubic area of floor space
Metered consumption or horse power of motors in use
Floor space occupied
Capital value of plant
Technical estimate base on the number of jets used
Direct labour

The works overhead expenses should be recovered in costs by machine hour rates related to the cost centres, or by the productive hourly rate related to the department, shop or cost centre, or by percentage of direct labour cost applicable to the department, shop or cost centre.

13. Where budgeted overhead recovery rates are used these should be adjusted by any over or under absorbed expenses to the extent that is necessary to reflect normal activity as defined in paragraph 10. Recoveries as a percentage of the material cost for material handling should not be used.

14. Overhead expenses should be collected for ancillary departments, i.e. tools and patterns, research and development etc. These expenses would be directly charged, where possible, to the products (see paragraphs 25 to 29).

15. Departmental accounts should be maintained for the direct cost of service departments, i.e. power house, maintenance etc. The total cost of such service departments to which general overheads should not be charged would be apportioned to the production departments, shops or cost centres according to the service performed.

16. Notional charges, such as rent where buildings are owned, should not be included in the overhead expenses.

17. The depreciation included in costs should be calculated on the bases adopted by manufacturers in their accounts and should be based on the historical cost of the fixed assets. Investment and similar cash grants received should be deducted from the cost of the relevant fixed assets and depreciation should be calculated on the resulting net cost of those assets.

Administration and Selling Expenses

18. Administration and selling expenses which are attributable to the administration and selling of the products manufactured are those set out in appendix A. Where applicable a due proportion of head office expenses should be included.

19. These expenses which will rate to both home and export trades combined should be segregated as between product divisions but not as between departments, shops or cost centres in view of the arbitrary bases of apportionment which would have to be used and which may direct the costs.

20. The expenses should be recovered in costs as a percentage of the works cost and recoveries as a percentage of the material cost for handling should not be used.

21. Where budgeted recovery rates are used these rates should, if necessary, be adjusted so as to reflect normal activity as defined in paragraph 10, in the period of production.

Erection and Installation on Site

22. Any direct materials used should be charged to the job at cost. Direct labour employed at the site should also be charged to the job at the rates paid. The labour should be confined to the erection, installation and testing on the site. Work normally done in the works but for expediency done on the site, should be included in the works cost.

23. The overhead expenses would be those incurred at the site plus any other overheads directly attributable to the erection organization. The total of the materials, labour and overhead expenses would be a direct charge to the job.

Design and Drawing Office Expenses

24. Design and drawing office time applicable to the job should be charged direct, based on time occupied at hourly rates. These rates should be set to include the overhead expenses of the engineering and drawing offices, or alternatively an addition should be made to the direct costs to cover the overhead expenses concerned.

Tools and Patterns

25. Tools and patterns purchased specifically for the job should be charged direct to the job at cost.

26. Tools and patterns made for the job by the member's own tools and patterns department should be charged to the job at the departmental works cost. The expenses of the department not chargeable direct should be recovered in costs as a percentage of works cost and should be added to the direct costs giving a total cost of tools and patterns applicable to the job.

Research and Development

27. The charge for general research to the product divisions concerned should be recovered in costs as a percentage of works cost. Materials, labour and overhead expenses incurred by the product divisions in developing and proving new or improved standard designs prior to putting such new or improved standard designs into production should be recovered in costs as a percentage of works cost. All research and development expenses referred to in this paragraph should be charged to *home trade business* only.

28. Special development should be charged direct to the contract under the appropriate headings design and drawing office expenses, tools and patterns or research and development. This expenditure includes special engineering and drawing office work, patterns and tools for a specific contract together with special modifications.

Packing

29. Packing materials used should be charged to the job at cost where separately identifiable. Packing labour employed on the job should be charged at the rates paid. Overhead expenses of the department should be collected in a departmental account and recovered as a percentage of the labour cost of the department.

Delivery

30. The cost of hired transport, or charges for own transport, for delivery should be charged direct to the job.

Post Construction Maintenance Expenses

31. The charge in the product costs to cover post construction maintenance should be a provision based on past experience and anticipated future trends, and should be a percentage of the works cost. The provision relates to all maintenance expenses incurred after the date of commissioning.

II. PRESENTATION OF COSTS

Cost Return

32. Attached at appendix B is a cost schedule setting out the form in which the costs of the grid switchgear, compiled in accordance with paragraphs 2 to 31 of this memorandum, should be presented.

33. The cost schedule sets out the elements of cost under which the costs should be analysed. For guidance, definitions of the elements of cost are set out in paragraphs 34 to 38.

Materials

34. Materials represent items purchased or requisitioned from stores in accordance with the contract specification, other than those items coming within the definition of sub-contracted work (see paragraph 35).

Sub-Contracted Work

35. Sub-contracted work consists of processing, by outside firms, on material supplied by the main contractor. Where practicable, the cost of the material supplied should be included under "materials" and the charge for processing included under "sub-contracted work."

Direct Labour

36. Direct labour may be defined as the work engaged in altering the form or shape of materials in fabricating or processing.

Overhead Expenses

37. The works overhead expenses are those indirect costs applicable to the manufacturer of the product, or expended in ancillary and service departments, as set out on appendix A.

38. Administration and selling expenses are those expenses incurred in the management and administration of the Company, and the sale of its products, as set out on appendix A.

APPENDIX A

GRID SWITCHGEAR

Classification of Overhead Expenses

I. GENERAL WORKS EXPENSES

Indirect Labour :

- Tool setting
- Rectification
- Waiting time for direct operatives
- Collecting and feeding materials for productive operations
- Moving work in progress between operations
- Moving finished materials from manufacturing departments or shops
- Unloading outside transport
- Internal transport labour
- Overtime and shift extras
- Extra allowances to direct operatives
- General labouring shopwork not specified
- Foreman, chargehands and supervisors
- Managers and staff of productive departments
- Inspection and testing of incoming materials
- Inspection and testing—production
- Planning and progressing
- Method, time study and ratefixing
- Timekeeping
- Works security
- Training, teaching and learning
- Storekeeping
- Stocktaking
- Plant equipment and layout staff
- Personnel
- Works Clerks
- Bonus to works staff
- Holiday pay
- National Insurance—company contribution
- Selective Employment Tax
- Free Transport—works employees
- Pension scheme contributions and ex gratia pensions
- Retrospective wage adjustments
- Plant relayout
- Production replacement and repairs (material and labour)
- Consumable materials
- Rejects and losses
- Redundant stores
- Protective clothing
- Works internal transport running expenses and depreciation
- Coal, coke, gas and fuel oil for works and works offices
- Employer's liability insurance
- Printing and stationery
- Power, light and heating of works and works offices
- Plant maintenance and reconditioning
- Water for works and works offices
- Rents and rates of works buildings
- Works Insurance
- Building maintenance
- Depreciation of works buildings, plant, machinery and equipment
- Carriage inwards when goods are not purchased at delivered prices
- Canteen and welfare
- Miscellaneous expenses

II. ADMINISTRATION AND SELLING EXPENSES

Management
 Accounting staff
 Secretarial staff
 Central typing staff
 Sales department staff
 Representative staff
 Agents' commission
 Drawing office and design (sales)
 National Insurance—company contribution
 Selective Employment Tax
 Bonuses
 Pension scheme contributions and ex gratia pensions
 Rents and rates of buildings
 Repairs and maintenance
 Depreciation of office furniture, fittings and equipment
 Management expense
 Light and heat
 Telephone and postage
 Office services
 Printing, stationery and duplicating
 Motor vehicles (administrative and sales) expenses, including depreciation
 General insurances, other than works
 Canteen and welfare
 Travelling expenses
 Bank charges (excluding bank interest)
 Patent renewal and license fees
 Donations and subscriptions
 Advertising
 General publicity, including catalogues and brochures
 Exhibitions
 Expenses of branch Offices and sales depots
 Consultants' fees
 Audit fees
 Legal charges
 Debt collecting expenses
 Bad debts
 Miscellaneous expenses
 Group tendering and associated expenses
 Note: Cash discounts received are to be deducted

III. PACKING EXPENSES

Transport maintenance
 National insurance company contribution
 Selective Employment Tax
 Bonus
 Pension scheme contribution and ex gratia pensions
 Miscellaneous packing expenses
 Rent and rates of buildings
 Repairs and maintenance
 Light and heat
 Telephone and postage
 Printing and stationery and duplicating

APPENDIX B

COST SCHEDULE FOR GRID SWITCHGEAR

Description of Plant.....	
Period of production (from commencement of machining to despatch from works) from to	
	<i>Total (pounds)</i>
Materials (paragraphs 2-7 and 34).....	
Sub-contracted work (paragraph 35).....	
Direct labour (paragraph 8-9).....	
Works overhead expenses (paragraphs 10-17).....	
Works cost.....	
Administration and selling expenses (paragraph 18-21).....	
Erection and installation on site (paragraphs 22 and 23).....	
Material	
Labour	
Site overhead expenses.....	
Design and drawing office expenses (paragraph 24).....	
Tools and patterns (paragraphs 25 and 26).....	
Research and development (paragraphs 27 and 28).....	
Packing and delivery (paragraphs 29 and 30).....	
Post construction maintenance expenses (paragraph 31).....	

ANNEX 2

GRID SWITCHGEAR

Terms of Reference to the independent accountant Cooper Brothers & Co. in connection with Clause 5 of the Agreement

It being the wish of both parties to the Agreement that their joint and several financial interests thereunder shall be subject to the examination and judgement of a single independent accountant: Cooper Brothers & Co. are hereby authorised and instructed as follows:

(1) To prescribe the form of a return to be compiled and certified by each manufacturer in respect of each calendar year showing particulars relating to all grid switchgear invoiced by him during the year for C.E.G.B. contracts and distinguishing between business for 132kV, 275kV and 400kV.

(2) To be available at all reasonable times to advise accountants concerned in producing the returns and also the Central Electricity Generating Board.

(3) To receive the certified returns and to scrutinise and appraise them with the financial interests of all parties to the Agreement in mind and to pursue any enquiries necessary to ensure that the costs shown therein have been arrived at in accordance with the costing principles detailed in Annex I to this Agreement and with any modifications, interpretations and techniques developed to give effect to these principles.

(4) Having completed his examination of the returns and having made any necessary adjustments arising from his scrutiny and appraisal, to summate the returns in accordance with Clause 5(ii) of the Agreement and advise the Central Electricity Generating Board and the Grid Switchgear Manufacturers of the percentage profit margins ascertained in accordance with Clause 5(ii) of the Agreement.

As witness the hands of Joseph Latham on behalf of Associated Electrical Industries Limited Gerald Noel Cabell on behalf of The English Electric Company Limited Kenneth Gladstone Smith on behalf of The General Electric Company Limited James Bennett on behalf of Reyrolle and Company Limited and

Leslie Frederick Miller on behalf of the Central Electricity Generating Board this 23d day of March 1967.

Signed by the said Joseph Latham in the presence of:

J. LATHAM.

Signed by the said Gerald Noel Gabell in the presence of:

G. N. GABELL.

Signed by the said Kenneth Gladstone Smith in the presence of:

K. G. SMITH.

Signed by the said James Bennett in the presence of:

JAMES BENNETT.

Signed by the said Leslie Frederick Miller in the presence of:

A. E. HACKETT.
L. F. MILLER.

EXHIBIT V

COMPARISON OF MARGINS ON FRENCH-MANUFACTURED POWER CIRCUIT BREAKERS

[GE-PCBD costs=100]

	Home market sale	Export to United States
Delivered price.....	184.0	86.8
Total delivered costs.....	118.6	110.4
Indicated pretax margin.....	65.4	(23.6)

¹ Includes tax on value-added.

Note: Parentheses denotes loss.

II. EUROPEAN MANUFACTURERS DERIVE TWO TRADE ADVANTAGES FROM THE "BORDER TAX" SYSTEM: INCREASED COSTS OF IMPORTS AND TAX REMISSIONS ON EXPORTS

A. *European reliance on indirect taxes for revenues*

Indirect taxes are the major source of revenue for most European countries. In contrast the United States derives most of its revenue from direct taxes. Although some European countries have corporate income tax rates nominally as high as in the U.S., effective tax revenues from them are substantially less because of generous depreciation practices, allowance of special reserves and lower tax rates on distributed income. In General Electric's case we estimated that our corporate income tax would have been reduced by about one third if we had been subject to the German corporate income tax.

European indirect tax rates—for sales, turnover and value added taxes—are high: 20% in France, 11% in Germany (as of July, 1968), and, probably a future harmonized rate of 17% for the entire European Economic Community in the 1970s. In contrast, the average indirect tax in the U.S. (state sales taxes) is 3.7%.

B. *The trade effects of an indirect tax system competing with a direct tax system*

Because of GATT rules regarding imposition of import equalization charges and remission of taxes on exported goods, there are significant trade effects than can be achieved by one nation's use of high-level indirect taxes, coupled with lower direct taxes, against a competitor trading nation that depends almost entirely on direct taxes.

To the extent that an upward change in an indirect tax rate (either by initial imposition or by a rate rise), is not passed along in full to the purchaser, the residual amount must be absorbed by the manufacturer, becoming, in effect, a direct tax on corporate earnings.

If, following such an increase in tax, a country raises its import equalization charges (border taxes) and export remissions by the full upward change in indirect taxes, to the extent that the increase in the domestic tax is not fully shifted to purchasers, imports are penalized by paying a higher burden than the equivalent product sold domestically, and exports are favored by a remission rate higher than the indirect tax being charged within the border.

C. The need for analysis of the theory of tax shifting

If the situation outlined in Section B, above, does or can occur, then underlying tax theory regarding the shifting of direct and indirect taxes needs new analysis and empirical testing. The GATT provisions governing tax impositions and remissions seem to have assumed that indirect taxes are always shifted 100% forward, while direct taxes are not shifted at all. From that assumption trade advantages and disadvantages are derived, in that U.S. products going into Europe face added costs of entry in the form of border taxes which overcompensate for the internal indirect taxes, while the European products going into export receive substantial tax remissions that sometimes can make the difference between winning an order and losing it.

The practical trade consequences of the GATT-endorsed theory of tax shifting are evident to General Electric as it competes in world markets: added costs of entry on its exports and import competition sharpened by tax remissions whose rates run as high as 20%. When these tax remissions are added to dual pricing disparities, they become a particularly significant and adverse factor in international competition. It is important, then, that the theoretical rationale on which the GATT provisions rest be re-examined and realistically tested for its soundness. Competitive equity demands no less.

D. Additional inequities

Two other aspects of the European administration of high rate sales taxes should be noted.

The first of these arises from the fact that European countries compute import equalization taxes on a base that includes transportation, insurance and duties, in addition to the factory price of the goods. The U.S., in applying its few import equalization levies, does not include transportation. Two arguments can, therefore, be advanced: (a) since inclusion of transportation, insurance and duties unfairly raises the import equalization charge above the internal sales tax, the equalization charge should be based on the price f.o.b. country of origin, and (b) in any event, transportation charges should not be included in the base.

Exhibit VI shows General Electric's experience with European border taxes that are levied on landed cost instead of on the price f.o.b. factory. The rates shown are those in effect during 1967. It will be noted that in the case of the Netherlands and France, the domestic sales tax rate and the rate of the import tax were the same. Yet, because these countries include transportation, insurance and duty in the tax base, the border tax was much higher than the tax paid by the European manufacturer.

Exhibit VI also shows the effect of a second administrative practice on imports and exports where the turnover tax is of the "cascade" variety. Because of the total tax borne by an article is a function of the number of turnovers that brought it to market, the amount of import tax necessary to equalize sales tax burdens is imposed at a rate higher than that applicable to a single turnover. For example, 11.5% as opposed to 7% in the case of tungsten carbide to Belgium. There is little evidence available about the degree of vertical integration among European industries. However, it is fairly clear that where the border tax is equivalent to the average integration of a European industry, the leaders of that industry who are more integrated than the smaller firms, bear a tax burden well below that of the American exporter.

As the Kennedy round of tariff reductions takes effect, and the European Economic Community adopts a uniform t.v.a. system of taxation, the barrier effect will actually worsen in some countries, as demonstrated in the specific example of Exhibit VII.

Assume that a U.S. manufacturer is exporting electric knives to West Germany, and the value of his product at the port of New York is 100—an index

value of 100. In 1967, at the German border, there was an import duty of 13%, adding 13.6 points to the price. A 6% import tax adds 7.1 points to the index. So the landed price of the U.S. product at the West German port is 125.2 index points in 1967.

By 1973, the import duty will be cut in half (6.5%) but the import or border tax will match the expected t.v.a. rate of 17%. So the landed value goes up to 130.2 points under the new t.v.a. tax system, in spite of Kennedy Round tariff reductions.

A system of tax rebates works to subsidize exports of integrated European firms in the cascade tax countries. Exhibit VIII shows data derived from exports of General Electric subsidiaries in Common Market countries. The "waived" tax simply shows the extent to which exports are exempt from sales taxes. The intermediate line shows the additional rebate which the government pays the exporter and which supposedly is a function of the average number of turnovers in a given industry. To the extent that a European exporter is highly integrated, the rebate tends to exceed the actual tax burden. It represents an outright export subsidy.

The specific manner in which the excess rebate system operates as an export subsidy is shown in Exhibit IX. Our West German subsidiary manufactures an electric alarm clock which has an f.o.b. plant price in West Germany of \$3.86. When this clock is exported to the United Kingdom, the West German government waives 18 cents of inland sales tax and turnover tax. It also pays the German manufacturer an excess rebate of 11 cents. Thus, the clock leaves the German plant for its destination in the United Kingdom at a price of \$3.57—or 29 cents less than its price in the German market.

Tax rebates to manufacturers in Europe thus affect competitive positions in third markets. Exhibit X demonstrates the effect on refrigerators going to the United Kingdom, from U.S. and Italian plants. In each case, the price for home markets equals 100 index points. Going to export markets, the manufacturer in Italy gets tax waivers and rebates amounting to 25 points, reducing his export price to 75 points. By the time both have paid duties, customs, and transportation, the total landed value at Liverpool is 125 points for the U.S. product, and 99 points for the Italian product. This gives the manufacturer in Italy such an advantage that, in the case investigated, he decided to take 10 points in extra profit, and sold at 109.

It is conceded that these built-in trade advantages of high-rate sales taxes will diminish in the future as the EEC switches from the cascade to the t.v.a. system. But as long as the EEC countries base their import taxes on landed cost, and as long as their rates exceed U.S. sales taxes by a factor of four, EEC countries will continue to benefit from the current border tax practices.

Conclusions

A realistic interpretation of these data suggests that nations which rely primarily on direct taxes face a chronic problem in international trade, when they compete with industrialized nations whose tax structure is more heavily oriented toward indirect revenues. This in turn raises the question of whether the United States will be capable of correcting its balance of payments problems without either adapting its own tax structure along the lines of its key competitors, or obtaining GATT revisions that treat direct and indirect taxes more equitably for purposes of international trade.

EXHIBIT VI
EUROPEAN TRANSACTION TAXES, 1967

[In percent]

U.S. export of—	National turnover tax rate	Import equalization taxes	
		Official rate	Effective rate (percent of U.S. f.o.b.)
Tungsten carbide to Belgium.....	7	11.5	13.5
Refrigerator to West Germany.....	4	6	8.4
Molding compound to Netherlands.....	6	6	7.3
X-ray equipment to France (t.v.a.).....	25	25	35.1

EXHIBIT VII

U.S. EXPORT OF ELECTRIC KNIFE TO WEST GERMANY

	1967		1973 with uniform t.v.a. rate	
	Rate (percent)	Index	Rate (percent)	Index
F.o.b., U.S. price.....		100.0		100.0
Ocean freight and insurance.....		4.5		4.5
Subtotal.....		104.5		104.5
Import tariff.....	13.0	13.6	6.5	6.8
Import equal. tax.....	6.0	7.1	17.0	18.9
Landed price.....		125.2		130.2

EXHIBIT VIII

EUROPEAN TAX WAIVERS AND REBATES—EXPORTING COUNTRY AND PRODUCT

[Effective rate as percent of f.o.b. price]

	West Germany, houseware	Netherlands, chemical	Italy, refrigerator
Waived national indirect taxes.....	4.6	5.5	11.4
Rebates national indirect taxes.....	2.8	3.8	9.8
Total, waiver/rebate.....	7.4	9.3	21.2

EXHIBIT IX

EUROPEAN TAX REBATES SUBSIDIZE EXPORTS

[Case: Electric alarm clock made in West Germany; destination: United Kingdom]

	Amount
West Germany f.o.b. plant price.....	\$3.86
Taxes included in f.o.b. price:	
(1) Inland sales tax at 1 percent of export price.....	.04
(2) Turnover tax at 4 percent of export price.....	.14
Export rebate:	
(1) Above 2 taxes are exempt (waived) on exports.....	(.18)
(2) Excess rebate at 3 percent of export price.....	(.11)
West German f.o.b. price less tax adjustment.....	3.57

EXHIBIT X

EUROPEAN TAX REBATES AFFECT COMPETITIVE POSITIONS IN 3D COUNTRIES

[Case: Refrigerator. Destination: United Kingdom.]

	From United States	From Italy
Home market price.....	100	100
Less tax waivers and rebates.....	0	25
Home market price less tax adjustment.....	100	75
Duties, customs, and transportation.....	25	24
Total, landed value.....	125	99
Actual selling price.....	125	109

CONCLUSION

A. The need for continuing commitment to international negotiations

Since World War II multilateral negotiations in the GATT and consultations in the OECD have been established as the principal means whereby the trading nations agree to uniform and non-discriminatory rules of trade. As such, they provide the essential foundation for orderly progression toward expanded international trade and elimination of devices and restrictions by which nations seek either to protect their domestic economies from outside competition or to gain an unfair advantage in foreign markets. General Electric believes that the long-standing U.S. commitment to multilateral discussion and negotiation is desirable, necessary and productive. It is the foundation on which viable rules of international law can be built.

Part of these negotiations, in OECD or in the GATT, could well be directed toward an agreement on uniform, publicly disclosed, non-discriminatory procurement rules which would open the European government owned or controlled markets to United States competition. The desirability of such an agreement has been well stated by The Brookings Institution to the Senate Finance Committee in connection with its review of U.S. trade policies:

"Government procurement policy seems to be one of the more promising areas for progress in reducing nontariff barriers. The basic approach that has been suggested by U.S. officials is to obtain an agreement among governments to provide foreign producers with the same opportunity to bid on Government contracts as domestic producers. This would involve such matters as establishing uniform procedures regarding the announcement of proposed purchases, publicizing required standards, and publishing the bids that are accepted. Any preference granted to domestic producers would be explicitly expressed and put in percentage terms."

(Compendium of Papers on Legislative Oversight, Feb. 7, 1968, vol. I, p. 340.)

Thus, with respect to heavy electrical equipment, such suggested agreement would contain explicit provisions and definitive safeguards followed by all Government authorities for the purpose of assuring U.S.-manufactured electrical utility equipment the same access to European governmental markets that European equipment producers now enjoy in selling to the United States Government procurement authorities.

Certainly too, these ongoing negotiations should focus specifically on the trade effects of border tax adjustments which are presently export-promoting and import-restricting for the indirect tax countries. The basic assumptions underlying the GATT provisions are open to substantial question, as has been previously discussed. The full border tax adjustments provided for with respect to indirect taxes can constitute both an export subsidy and an import surcharge. Adjustments for indirect taxes should at least be reduced under carefully circumscribed conditions, or some comparable advantage granted to countries who do not enjoy the international trade benefits of the indirect tax system.

B. The inadequacy of existing statutory remedies

But proceedings in the GATT and OECD are not enough. An effective and comprehensive U.S. trade policy requires more: for example, determined and resourceful utilization of statutory and administrative procedures to cope with the many facets of international competition and provide timely remedies which can be invoked to discipline unfair competition on a case-by-case basis. As a practical matter, however, the available procedures discussed below have not provided effective relief against the consequences of exclusionary procurement practices of foreign governments and the dual pricing by foreign suppliers when selling to governmental agencies in the U.S.

1. Trade Expansion Act of 1962

On its face, Section 252 of this Act (19 USC Section 882) would appear to give the President broad discretionary authority to take a variety of retaliatory steps in order to end "unreasonable" or "unjustifiable" foreign import restrictions, discriminatory acts and non-tariff barriers. Yet, thus far this statutory authority has not been invoked nor, so far as we are aware, have U.S. trade officials encouraged U.S. industries to provide specific information that would bring its provisions into play. This appears to be a missed opportunity, because the apparent legislative intent of this Section was to provide a means for execu-

tive action against precisely the sorts of non-tariff barriers and unfair competition practices we have faced for many years. Until rules or regulations are prescribed for this statutory authority and initiative taken by the Executive Branch to exercise the responsibilities vested in the President, Section 252 of the Act will not accomplish its legislative purpose.

2. Countervailing Duties

The provision for countervailing duties, Title 19 USC Section 303, recites that whenever any foreign country or business organization thereof "shall pay or bestow, directly or indirectly, any bounty or grant" upon the export of any article produced within a foreign country, and the article is dutiable under the U.S. Tariff laws, an additional duty shall be levied upon its importation into the United States "equal to the net amount of such bounty or grant, as estimated by the Secretary of the Treasury."

General Electric suggests the statute be re-examined in the light of the two types of trade imbalances previously discussed in this brief: dual pricing and the existing trade advantages of the European tax system.

Admittedly, in none of the reported cases brought under the present Act, or its earlier counterpart, has evidence of the alleged "bounty" or "grant" been predicated upon the subsidization of low prices for exports through payment to the exporter by government owned or controlled purchasers of significantly higher prices in the home market for the same goods.

In considering whether Section 303 of the current Act could not be interpreted to cover such a method of subsidizing exports, it is stressed: (1) the statute proscribes the payment of "any" type of bounty or grant, and covers those made "directly or indirectly," (2) the bestowal of the pecuniary benefit need not be made by the government, but by a corporation, partnership, association, or "any . . . person . . ." Indirect subsidy payments in the form of higher prices paid by a quasi-governmental body or a government owned utility would appear to come within the literal scope of the language.

In three early cases, remission of taxes at the border on account of the exportation of goods was held to be a bounty. *U.S. v. Passavant*, 169 US 16 (1897); *Downs v. U.S.*, 187 US 496, 47 L. Ed. 275 (1903); *Nicholas & Co. v. U.S.*, 249 US 34 (1919). In the *Nicholas* case, the Court was strikingly clear on this point and treated as irrelevant the fact that the goods were sold in the United States for the same amount as they would have been sold in the United Kingdom if the latter had imposed no domestic tax.

In spite of the *Nicholas* case, *supra*, the position of the United States Treasury has been that remission of indirect taxes on exports does not constitute a bounty. Hearings on H.R. 1535, Customs Simplification Act of 1951, before the House Committee on Ways and Means 16 (1951); see also *The Contracting Parties to the General Agreement on Tariffs and Trade, Antidumping and Countervailing Duties*, 9-10 (1958).

The Treasury's position is undoubtedly influenced by the fact that Section 303 is not literally consistent with GATT Article VI, which specifies that countervailing duties should be imposed only under the following conditions:

1. The purpose of the duty is to offset a bounty or grant bestowed directly or indirectly upon the manufacture, production or export of merchandise; (Sec. 3)
2. There is a showing of material injury to an established domestic industry, or retardation of the establishment of a domestic industry; (Sec. 6(a))
3. The importation is not also subject to an antidumping duty; (Sec. 5) and
4. Provided that: "No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to antidumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes." (Sec. 4)

U.S. law as expressed in Section 303, Title 19, USC, contains only the first condition; i.e., it does not require any showing of material injury, does not make antidumping and countervailing duties mutually exclusive remedies, and does not exclude from the bounty or grant category rebates or exemptions of indirect taxes. Legislation to conform Section 303 to the material injury requirement of GATT was introduced but failed to pass the Congress (H.R. 1535, 82nd Congress, 1st Session).

At the request of the Contracting Parties, a group of experts has examined whether remission of indirect taxes upon exportation can be a subsidy or bounty under GATT. Their report, *Antidumping and Countervailing Duties*, (GATT/1961-2) was adopted by the Contracting Parties. They concluded as follows (at p. 20, *supra*) :

"Exemption from taxation does not constitute subsidization"

"The Group considered that it was perfectly justified that in conformity with the procedures of paragraph 4 of Article VI, countervailing duties should not be imposed on a product by reason of the exemption of such product from duties or taxes imposed on the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes. If, however, it were established that the exemption or the reimbursement exceeded the real charge which the product would have to pay in the exporting country, the difference could be considered as constituting a subsidy."

Since the unshifted portion of an indirect tax is by the definition borne by the producer and not the product, the language of the last sentence of the paragraph would leave the United States free to treat as an export subsidy a rebate of either (1) an amount exceeding a tax actually paid, or (2) an amount representing the unshifted increment of a TVA tax.

3. *Antidumping Act*

With the previously described electrical utility equipment being sold in the United States at less than fair value, an action would ostensibly lie under the Antidumping Act of 1921 (19 USC 160 et seq). Here, it would seem, is precisely the sort of self-help remedy that the heavy electrical equipment industry, or any of its members, should pursue. The statute and regulations, however, require a finding of material injury or the likelihood of material injury to the domestic industry. Historically, this requirement has been so interpreted by the Tariff Commission that the U.S. electrical industry, which has relatively full employment, increasing production volumes and overall profitability, probably has not sustained injury within the meaning of the Act.

This observation does not mean General Electric believes the Antidumping Act should be used as a shield for domestic industry against inroads from fair foreign competition. To the extent a foreign manufacturer, exploiting advantages in costs, productivity or innovation, can produce and sell on a non-discriminatory basis, a product in this country at a price lower than the equivalent U.S.-made product, U.S. manufacturers must look to the economics of the situation—even to the extent of shifting production facilities to offshore locations and exporting to the United States.

General Electric suggests, however, that on the facts developed in this brief the concept of material injury could be broadened to permit the Tariff Commission to draw persuasive inference of injury where the dumped sales are in significant volume and such sales depend upon or are linked to the demonstrable exclusion of equivalent U.S. products from the home market of the foreign exporter.

C. *Certification*

The Brookings Institution proposal described at the outset of our concluding remarks, has considerable merit and should be considered as one of the methods for dealing with the dual pricing of heavy electrical equipment. The gravity of the situation, however, is such that government-to-government negotiation may not be concluded in time to make such an arrangement an effective remedy.

On a short-range basis, the serious trade imbalance caused by dual pricing might well be relieved by appropriate governmental action changing existing U.S. Government Procurement Regulations (e.g., 41CFR, Subtitle A, Chapter 1) to require foreign suppliers to certify specifically and in a prescribed manner, that the prices they are quoting are no lower than the comparable prices for like products sold in their respective domestic markets. If the foreign supplier has not sold such products in his home market, appropriate alternative procurement certifications could deal with either the supplier's prices to third countries, or the constructed value of the products as would be defined in the proposed new Procurement Regulations (compare provisions set forth in 19 CFR 14. 7). In view of the existing U.S. balance of payments problem and the consequent threat to the national interest from the current price discrimination practices of foreign suppliers, it seems clear there is ample authority to make such changes in the

U.S. Government Procurement Regulations. (See for example, Executive Order No. 10,582; Armed Services Procurement Regulations 32 CFR Sections 6.102, 6.104-4 (1967))

D. U.S. tax on value added

The difficulty of determining the quantum of trade advantage that is conferred by a high rate indirect tax with border adjustments is the chief obstacle to effective international negotiation or acceptable U.S. counteraction. As long as opinion is widely divided on whether and by how much the United States is disadvantaged by its primary reliance on the direct net income tax, any U.S. border adjustments designed to offset such disadvantage can be alleged to be unwarranted and in violation of the GATT. Unless justification for a border levy can be convincingly shown, retaliatory action by foreign nations can be expected.

Of the available alternatives, the only border levy clearly exempt from this consideration would be a border tax and export rebate in support of a U.S. indirect tax of the TVA variety. Should the European Common Market adopt a uniform TVA with a 17% rate, they could not complain if the United States were to replace a portion of its corporate net income tax with an appropriate TVA levy and the import equalization taxes and export rebates similar to those contained in the European TVA laws. A description and analysis of a value-added tax as part of the U.S. tax structure is contained in a statement by the Research and Policy Committee of the Committee for Economic Development, *A Better Balance in Federal Taxes on Business*, April 1966, at Page 25 et seq.

As an interim measure until a TVA system can be carefully studied and worked into the United States tax system, present international agreements would appear to justify a border tax and export rebate system with a rate equal to the calculated level of indirect taxes borne by goods produced in the United States and not now adjusted for at the border. Informal estimates have placed such a rate at 2-3%. A higher rate, 5% for example, would also be justifiable under Article XII of GATT if imposed as a temporary measure designed to alleviate current U.S. balance of payments difficulties.

STATEMENT OF DON A. ELLIS, TREASURER, TEKTRONIX, INC.

Tektronix, Inc., Beaverton, Oregon, is a fairly young, rapidly growing company in the technology-based field. Tektronix is the world's largest manufacturer of cathode-ray oscilloscopes, the basic electronic measuring instrument, used by all electronics companies and many others. Tektronix cathode-ray oscilloscopes are the preferred measuring instruments, not only in the United States but in the entire world.

Because Tektronix has been able to manufacture oscilloscopes in the United States at a cost that would allow them to be sold competitively throughout the world if there were not trade barriers, the company is a strong advocate for free trade. It therefore strongly opposes the protectionist tendencies which are cropping up so frequently lately, and the program to restrict direct foreign investment.

We are sure you have heard all the arguments favoring free trade and opposing trade barriers. We see nothing to be gained by attempting to reword and expound these arguments. We would merely like to point out the obvious: That reduction or elimination of protective trade barriers will hurt those companies or industries that are uneconomic and survive only because they *are* protected. Obviously, also, the resources used in these industries would better contribute to the prosperity of this country if applied in a more economic use. Therefore, continuing or increasing protectionism because some company might otherwise be hurt is unwise, and its logic fallacious.

If there had been free trade in the world the last 10 years, we firmly believe Tektronix would be supplying a larger share of the world market than at present, simply by exporting from the United States. Since there *were* trade barriers, Tektronix has found it necessary to manufacture outside the United States to overcome advantages enjoyed by competitors and potential competitors, advantages created by their countries' protective barriers.

Tektronix products are now manufactured within the Common Market, the European Free Trade Area and Japan. Much of this output results from assembly

of components manufactured by Tektronix in the United States and exported to the manufacturing subsidiary.

The following information shows the growth of Tektronix sales; how much of that was international; and how, even though an increasing portion of the products sold internationally must be manufactured outside the United States, exports from the U. S. still have continued to increase. It also shows the amount invested outside the United States to keep Tektronix competitive—including receivables from customers and retained earnings of subsidiaries.

Year ended May	Net sales	International sales	Percent international	Exported from United States	Investment outside United States
1960.....	44,762,255	9,685,133	21.6	9,095,662	1,722,708
1961.....	50,282,197	12,209,493	24.3	12,567,509	6,711,527
1962.....	60,139,148	14,260,093	23.7	14,636,883	8,014,590
1963.....	70,450,810	18,255,864	25.9	12,199,439	6,694,806
1964.....	75,502,572	22,335,008	29.6	18,271,493	10,095,534
1965.....	81,099,088	25,870,467	31.9	18,212,263	10,754,121
1966.....	101,759,192	30,061,655	29.5	20,475,465	12,675,550
1967.....	129,030,753	35,082,518	27.2	23,477,101	15,520,157
1968.....	133,656,005	43,487,800	32.6	25,844,410	19,363,471

We regret we are unable to find reliable information on the total world sale of oscilloscopes, or even on the total United States sale. Most other manufacturers are large companies, with oscilloscopes only a small part of their output. If they announce what portion of their sales are oscilloscopes, we are unaware of it.

Although it is not explicit in the figures, we firmly believe Tektronix exports would not be nearly so large had we not protected our competitive position around the world by manufacturing outside the United States. That is, a larger share of the world market would have gone to unchallenged competitors. We would much prefer to concentrate all our manufacturing within the United States. We are convinced that further elimination of trade barriers will *increase* the proportion of Tektronix manufacturing that is done within the United States.

If trade barriers were eliminated, and Tektronix manufacturing expanded within the United States rather than outside it, the company would not be hampered by the program restricting foreign direct investments. As it is, investment restriction considerably retards our ability to compete.

We strongly urge that every attempt be made to resist trends toward trade protectionism, and that all efforts seek to rapidly approach free trade among all countries.

Mr. FULTON. Our next witness is Mr. Lowe.

Mr. Lowe, we welcome you to the committee and ask that you identify yourself for the benefit of the record.

STATEMENT OF BERTRAM LOWE, CHAIRMAN, CUSTOMS COMMITTEE, AMERICAN WATCH ASSOCIATION; ACCOMPANIED BY STANLEY L. TEMKO, COUNSEL

Mr. LOWE. Mr. Chairman and gentlemen, my name is Bertram Lowe. I am vice president and secretary of the Longines-Wittnauer Watch Co. and chairman of the Customs Committee of the American Watch Association, on whose behalf I appear.

Unfortunately, Mr. Julian Lazrus, president of the AWA and also the president of Benrus Watch Co., who was to be with me, was called away.

Mr. Stanley L. Temko of Covington & Burling is counsel to the AWA, and he is here with me on my left.

I have a brief statement which I would like to make at this time, and a longer statement that I should like to submit for the record, to be included as part of my testimony.

Mr. FULTON. It will be included.

Mr. LOWE. The AWA is an association of approximately 50 U.S. firms which import watch movements and assemble them, utilizing U.S. and foreign-made cases and other components, into complete watches for sale in the United States and world markets.

We are here to oppose legislation that would restrict importation of watch movements either by raising the current rate of duty or by imposing quotas. In particular, we oppose H.R. 11738, which seeks to reimpose the escape clause tariff rates on watch movements in effect for 12½ years—from July 27, 1954, until January 11, 1967, when they were terminated by the President. We are also opposed to H.R. 16936 and similar bills, known as the Fair International Trade Act of 1968. We believe that serious economic injury is the appropriate test for relief from import competition, not share of the market.

Our testimony will show that the decision to rescind the escape clause rates was made only after a most careful economic study by the U.S. Government disclosed that the domestic producers have made a successful adjustment to import competition. It will further show that the domestic producers are today enjoying alltime record sales and profits. Significantly, it will show that domestic watch production increased following the tariff reduction, whereas the number of watches entering the United States from offshore sources declined slightly. Although we will be able to cover only a part of this material in our oral presentation, the longer statement we have submitted for the record provides detailed information on the performance of the domestic producers and on developments in U.S. watch trade. We believe that the evidence demonstrates that the domestic producers are competing successfully, and that they can continue to do so without additional protection from imports.

PRESIDENT'S DECISION FOLLOWED PAINSTAKING INVESTIGATION

The President's decision of January 11, 1967, to rescind the escape clause rates of duty on watch movements followed an exhaustive review begun by the U.S. Tariff Commission, on its own motion, on December 5, 1963. During the more than 3 years that this matter was under study, the companies which engage in the domestic production of watch movements had every opportunity to present their case, and they did so by resort to several administrative procedures established by Congress as part of the trade agreements program.

First of all, there was the opportunity afforded by the basic escape clause review itself, under section 351(d)(2) of the Trade Expansion Act.

Secondly, in April 1964, some domestic producers petitioned for additional escape clause relief under section 301(b) of the Trade Expansion Act.

Thirdly, in a complaint originally filed in April 1964, and amended in December 1964, the domestic producers also brought an action alleging unfair import competition under section 337 of the Tariff Act of 1930.

Finally, at the request of the President, an investigation was begun in April 1965, under section 232 of the Trade Expansion Act, into the issue of whether imports of watch products were threatening to injure the national security.

Thus, there were four separate proceedings and four separate investigations, lasting for a period in excess of 3 years. Had the views of the domestic manufacturers prevailed in any one of these four proceedings, it is highly unlikely that the escape clause tariff rates would have been rescinded. Certainly no one can properly state that the domestic producers lacked adequate opportunity to present their views, or that those views received less than thorough consideration.

The President's decision, which was taken only after all four of these proceedings had been completed, resulted in the restoration of watch tariffs to the levels established under the United States-Swiss Trade Agreement of 1936—that is to say, the rates existing before the escape clause was invoked in 1954. The reductions amounted to 33⅓ percent, as compared to the 50-percent reductions agreed to on a broad range of products in the Kennedy round negotiations. In compensation for the restoration of the 1936 rates, the United States received equivalent concessions from Switzerland, to the benefit of U.S. exporters.

It should be noted that despite the restoration of the 1936 rates, U.S. watch tariffs remain among the highest levied on any imported product, averaging approximately 40 percent ad valorem equivalent.

It is easy to look at watch tariff disputes as a traditional battle between the importers and domestic producers. But the structure of the U.S. watch industry differs from that of other U.S. industries. All major firms in the industry have substantial facilities abroad and in the United States, and all add substantial value to their products here as well as overseas. My company, Longines-Wittnauer, and the other members of the AWA are importers of watch movements, but AWA members do not sell watch movements. We sell complete watches. The value of the imported watch movement represents only a small percentage of the total cost of the watch.

As the Tariff Commission pointed out in a comprehensive study of the industry issued in 1947: "The cost of the movement, the only imported element, accounted for about 36 percent of the total cost of the importer-assembler, 25 percent of the cost to the retailer, and 12 percent of the price to the consumer."

At the time of that study, in other words, about 88 cents of every dollar paid by a customer for a so-called imported watch remained in the United States to pay for goods and services and for the U.S. duty.

The essential point we want to make today is that the domestic watch producers have already enjoyed more substantial tariff protection for a longer period of time than any other American industry of which we are aware. During this extended period, the domestic producers successfully made their adjustment to import competition.

In the interest of brevity, I shall skip over most of the detail appearing in our written statement, but I do want to emphasize certain key facts:

(1) Domestic watch production was at an alltime high in 1967. As shown in table 1, consumption of U.S.-made watch movements rose from 7.2 million in 1954, the year the escape clause increases were imposed, to 16.6 million in 1967, an increase of 130.6 percent.

As shown in table 2, manufacturers' sales in U.S. durable goods industries increased 95.6 percent in that span, and manufacturers' sales in nondurable goods industries increased 87.6 percent.

Thus, the domestic watch manufacturers have substantially outperformed U.S. industry in general over the 13-year period.

Watch imports have also increased. Yet, based on the report to the President issued by the Tariff Commission following its comprehensive review of the watch escape clause action, imports by importer-assembler firms in 1963 were 10 percent below their 1953 level. On the other hand, imports of watches and watch movements by the domestic manufacturers themselves had increased more than 95 percent. The trend is shown in table 3. The Tariff Commission has not made figures of this type available for years after 1963.

(2) Sales and profits of the U.S. manufacturers were at an alltime high in 1967. Since the escape clause action of 1954, the watch industry has undergone a series of changes which have markedly strengthened the competitive capability of the firms which produce watch movements domestically. Chief among these changes is the growth of U.S. Time, or Timex, from a relatively unimportant company into the giant of the industry.

By its own proud boast, U.S. Time is the world's largest watch company, marketing more than 40 percent of all the watches sold in the United States. Its sales last year amounted to \$201 million, representing, incidentally, a 40-percent increase over 1966, and a 169-percent increase since 1962. Please note that this latest increase of 40 percent came after the tariff reduction, which occurred in January 1967. Forbes magazine recently estimated—June 1, 1968—that U.S. Time last year earned a return on stockholders' equity of 25 percent. The most recent Fortune 500, reporting on 1967 results, showed only 11 of the 500 largest industrial companies in the United States with a higher earnings rate on invested capital. U.S. Time is a privately held company. If it were a public company, it would, of course, be represented on the Fortune 500. It is ironic that this company—which sells five or six times as many watches as its closest competitor, and is substantially more profitable than any other firm in the industry—should come before Congress and ask to be protected from competition.

The other principal domestic producers are also enjoying unprecedented prosperity, as shown in table 4. Bulova's sales in the year ended March 31, 1968, were \$139.8 million, up 13 percent from \$123.9 million a year ago. Profits were \$4.5 million, an increase of 15½ percent from \$3.9 million a year ago. The results in the year ended March 31, 1968, represented an all-time record for the company, the previous records having been established in the year ended March 31, 1967. Since 1962, Bulova's sales have increased approximately 122 percent.

Hamilton increased its sales during the year ending January 31, 1968, to \$68.4 million, a new high, and an increase of 81.9 percent since 1962. Hamilton's earnings were below the record level achieved in 1966 because of—and I quote here from the most recent annual report: “* * * difficulties with a major military contract involving heavy training expenses, difficulty in obtaining parts from certain vendors, and high investment in inventories.” First quarter results for 1968 showed an increase of more than 45 percent in sales and of about 75 percent in profits from the first quarter of 1967. Hamilton's president, Richard J. Blakinger, said: “We look for continuing improvement for Hamilton through the balance of the year. Based on incoming

orders and operating performance so far, we expect all divisions to complete the year ahead of 1967 in both sales and profits."

A second major development in recent years has been the marked trend toward the internationalization of watch production. This trend has affected the domestic manufacturers as well as it has affected most other watch producers in the world.

In testimony before the U.S. Tariff Commission in March 1964, a U.S. Time executive asserted that "the importation of parts keeps our labor force at work here." He was saying, in other words, the U.S. Time has taken advantage of international specialization, based on production of certain parts in its foreign factories, production of certain other parts in its U.S. factories, and assembly of completed movements for the U.S. market in Puerto Rico, the Virgin Islands, and in the continental United States. This formula enabled U.S. Time to achieve the lowest possible unit cost of production, and is one very important reason for U.S. Time's fantastic success, which has led to a manifold increase in the company's U.S. employment.

Certainly there is no basis in fact for the subterranean argument encountered again and again, that U.S. Time could do better by shutting up its U.S. factories and supplying the American market entirely from abroad. On the pin-lever watches which continue to be the mainstay of U.S. Time's business, the protection which the company continues to enjoy since the tariff reduction amounts to approximately 75 cents per unit, which is considerably in excess of anything U.S. Time could possibly save by producing movements abroad instead of in the United States.

The simple fact is that today the watch industry has become a truly international industry. Even though Switzerland remains by far the largest producer, Swiss and other foreign-based companies, like those in the United States, are using facilities in a number of nations to make watches with components from a variety of sources. I believe we will see more of this in the future. I also believe firmly that there will continue to be a large and growing role for the American watch industry in this picture.

(3) Developments in 1967 confirm that the domestic producers are capable of competing effectively at current rates of duty. As reflected in table 1, domestic production in 1967 reached 16,599,000 units, an increase of 9.2 percent from the 1966 level. Dutiable imports amounted to 22,913,000 units, an increase of only 6 percent. Shipments from U.S. insular possessions, which are entered free of duty under a special tariff provision, dropped 30.6 percent, to 3,782,000 units, largely because of a quota imposed by Congress, but also partly because the tariff reduction reduced the edge enjoyed by insular watch shipments over dutiable imports.

Thus, in spite of the tariff rollback, which might have been expected to stimulate imports relative to domestic production, the total number of watches and watch movements entering the United States from off-shore sources—that is, dutiable imports plus shipments from the U.S. Virgin Islands and Guam—actually declined 1.3 percent last year. This development substantiated the prediction which the AWA made in 1954 in its testimony before the U.S. Tariff Commission. We said at that time that the principal result of restoring the 1936 tariffs would be to limit production in the Virgin Islands and Guam, and that

the domestic companies particularly U.S. Time, would pick up a substantial share of the market vacated by merchandise from the islands. Experience has demonstrated that we were correct.

PROPOSED BILL ATTACKS THE BASIC PROCEDURES ESTABLISHED BY
CONGRESS

The real issue posed by H.R. 11738 to this committee, it seems to us, is the integrity of the procedures and guidelines which the Congress has enacted over the years for the conduct of U.S. trade policy. Surely, after 12½ years under the escape clause, and a careful economic review which documented the successful adjustment of the domestic producers, Congress will not arbitrarily put aside the procedures which it has established, and which have been fully utilized in this case, thus confirming confidence in them on the part of the trading community. The existence of fair and dependable procedures is essential to the reciprocal trade program and to orderly trade relations with the rest of the world.

Thank you for giving us this opportunity to present our views.
(Mr. Lowe's prepared statement follows:)

STATEMENT OF BERTRAM LOWE, CHAIRMAN, CUSTOMS COMMITTEE, AMERICAN
WATCH ASSOCIATION

My name is Bertram Lowe. I am Vice President and Secretary of the Longines-Wittnauer Watch Company and Chairman of the Customs Committee of the American Watch Association, on whose behalf I appear. With me is Mr. Julian Lazrus, President of the AWA and also President of the Benrus Watch Company.

The AWA is an association of approximately 50 U.S. firms which import watch movements and which assemble them, utilizing U.S. and foreign-made cases and other components, into complete watches for sale in the U.S. and world markets. Many of our members also import watches. In addition to Longines-Wittnauer, members of the AWA include the firms which market such well-known brands as Audemars Piguet, Benrus, Girard Perregaux, Gruen, Lucien Piccard, Louvic, Movado, Omega, Rolex, Waltham, Wyler and Zodiac.

We are here to oppose legislation that would restrict the importation of watch movements either by raising the current rates of duty or by imposing quotas. In particular, we oppose H.R. 11738, which seeks to reimpose the escape clause tariff rates on watch movements in effect for 12½ years—from July 27, 1954, until January 11, 1967, when they were terminated by the President. We are also opposed to H.R. 16936 and similar bills, known as the Fair International Trade Act of 1968. We believe that serious economic injury is the appropriate text for relief from import competition, not share-of-the-market.

Our testimony will show that the decision to rescind the escape clause rates was made only after a most careful economic study by the U.S. Government disclosed that the domestic producers have made a successful adjustment to import competition. It will show further that the domestic producers are today enjoying alltime record sales and profits. Significantly, it will show that domestic watch production *increased* following the tariff reduction, whereas the number of watches entering the U.S. from offshore sources declined slightly. It provides detailed information on the performance of the domestic producers and on developments in U.S. watch trade. We believe that the evidence demonstrates that the domestic producers are competing successfully and that they can continue to do so without additional protection from imports.

THE WATCH TARIFF ROLLBACK FOLLOWED PAINSTAKING ECONOMIC REVIEW

On January 11, 1967, President Johnson rescinded the escape clause rates of duty on watch movements following an exhaustive review begun by the U.S. Tariff Commission, on its own motion, on December 5, 1963. During the more than three years that this matter was under study, the companies engaged in the domestic production of watch movements had every opportunity, under

procedures established by Congress as part of the trade agreements programs, to present their case, not only on the economic issues but also on the subject of their alleged essentiality to the national defense.

I think it is safe to say that no other industry in the entire history of the trade agreements program has been subjected to such a painstaking and definitive examination.

First of all, there was the basic escape clause review itself under Section 351(d) (2) of the Trade Expansion Act. Secondly, in April 1964, some domestic producers petitioned for additional escape clause relief under Section 301(b) of the Trade Expansion Act. Thirdly, in a complaint originally filed in April 1964 and amended in December 1964, the domestic producers also brought an action alleging unfair import competition under Section 337 of the Tariff Act of 1930. Finally, at the request of the President, an investigation was begun in April 1965, under Section 232 of the Trade Expansion Act, into the issue of whether imports of watch products were threatening to injure the national security.

Thus, there were four separate investigations made, involving three entirely separate sets of hearings and four separate sets of briefs, rebuttal briefs, informational memoranda, etc. Had the views of the domestic manufacturers prevailed in any one of these four proceedings, it is highly unlikely that the escape clause tariff rates would have been rescinded. The application for additional escape clause protection was unanimously rejected by the Tariff Commission in October 1964. The complaint of unfair import competition was unanimously rejected in June 1966. The Tariff Commission completed its work on the basic escape clause review in March 1965, at which time the Commission's report became the basis for further studies by the departments and agencies charged with responsibility for advising the President. This review and the national security investigation, which also involved extensive inquiry by several departments and agencies, were completed simultaneously in January 1967. The national security investigation resulted in a finding that imports of watch products were *not* threatening to impair the national security, and the escape clause review disclosed that the domestic producers had made a successful adjustment to import competition, as contemplated in the Trade Expansion Act of 1962, and would not be injured by restoration to the trade agreement rates.

Certainly no one can successfully assert that the domestic producers lacked an adequate opportunity to present their views or that those views received less-than-thorough consideration.

The President's action of a year ago January, based on the Tariff Commission's investigation and upon the advice of the Commerce Department, the Labor Department, and other government agencies, resulted in the restoration of watch tariffs to the levels established under the U.S.-Swiss Trade Agreement of 1936—that is to say, the rates existing before the escape clause was invoked in 1954. The reduction amounted to 33½ percent as compared to the 50 percent reductions agreed to on a broad range of products in the Kennedy Round negotiations. In compensation for the restoration of the 1936 rates, the United States received equivalent concessions from Switzerland to the benefit of United States exporters.

It should be noted that, despite the restoration of the 1936 rates, U.S. watch tariffs remain among the highest levied on any imported product, averaging approximately 40 percent *ad valorem* equivalent.

Parenthetically, I should explain that watch duties are assessed at so many dollars and cents per unit, ranging from 75¢ on a pin-lever movement to \$2.70 for a small, 17-jewel ladies' movement. Additional charges are levied if a movement is self-winding or adjusted to position and temperature. Watches containing in excess of 17-jewels were not subject to the escape clause increases; they are currently dutiable at \$9.67 and are scheduled to be reduced eventually to \$5.37½ under the agreements reached in the Kennedy Round.

The essential point we want to make today is that the domestic watch producers have already enjoyed more substantial tariff protection for a longer period of time than any other American industry of which we are aware. The domestic producers have *made* their adjustment to import competition. The decision which the President made in January 1967 was entirely just and proper and should not be reversed by an act of Congress.

THE EVIDENCE SHOWS DOMESTIC PRODUCERS ARE ENJOYING RECORD PROSPERITY

Turning now to the condition of the industry, at the outset let me emphasize these key facts; they will be discussed in greater detail later on.

- (1) Domestic watch production was at an all-time high in 1967.

(2) Sales of the domestic manufacturers were at an all-time high in 1967. Profits of the domestic manufacturers were undoubtedly also at an all-time high in 1967. The largest domestic manufacturer, Timex, is a closely-held corporation and is not required to report its earnings publicly. But since *Timex sales have nearly trebled since 1960 and went up 40 percent last year alone*, we think the assumption is entirely safe. Indeed, *Forbes* magazine recently estimated that U.S. Time last year earned 25 percent on stockholders' equity.

(3) Especially striking is the fact that, as indicated, domestic watch production increased in 1967 to an all-time high, despite the restoration of trade agreement rates on watch imports. Conversely, the number of watch movements entering the U.S. from off-shore sources actually declined. A slight increase in dutiable imports was more than offset by a sharp decline in duty-free shipments from U.S. insular possessions.

WATCH TARIFF BATTLES ARE BETWEEN COMPETING SEGMENTS OF U.S. INDUSTRY

It is easy to look at watch tariff disputes as a traditional battle between importers and domestic producers. But the structure of the U.S. watch industry differs from that of other industries. All firms in the industry have substantial facilities abroad and in the U.S., and all add substantial values to their products here as well as overseas.

My company, Longines-Wittnauer, and the other members of the AWA, are importers of watch movements. But we do not *sell* watch movements; we sell *complete watches*. The value of the imported watch movement represents only a small percentage of the total cost of the watch.

As the Tariff Commission pointed out in a comprehensive study of the industry issued in 1947, "the cost of the movement, the only imported element, accounted for about 36 percent of the total cost of the importer-assembler, 25 percent of the cost to the retailer, and 12 percent of the price to the consumer." At the time of the study, in other words, about 88 cents of every dollar paid by a customer for a so-called imported watch remained in the United States to pay for goods and services and for the U.S. duty.

While these figures may have changed somewhat in the intervening years, it continues to be a fact that the operations of watch importer-assembler companies contribute heavily to the American economy. Conversely, the so-called domestic watch manufacturers are heavily internationalized. Each of them owns substantial productive facilities overseas and imports a very large number of watches, movements, and parts into this country.

Bulova is the largest single U.S. importer. Hamilton is the largest producer of watch movements in the U.S. Virgin Islands as well as a very substantial importer of dutiable merchandise. And U.S. Time imports large quantities of watch parts which it utilizes, together with U.S.-made parts, to assemble the watch movements its manufactures domestically.

What the controversy over watch import duties involves is a commercial struggle within the total U.S. watch industry. H.R. 11738 would intervene on the side of a few companies which are prospering by every conceivable measurement of economic performance and which are well able to take care of themselves. The domestic producers are fond of saying that they could make more money as importers, implying that they are responding to a higher motive in campaigning against imports. But what they really want is the best of both worlds. When Edward T. Carmody of U.S. Time testified before the Tariff Commission in March 1964 in favor of lower duties on imports of watch parts in the pre-Kennedy Round hearings, he acknowledged that he found himself "in a rather unexpected position, that is historically unexpected," and that his request for lower tariffs on watch parts "might appear at first blush to be a somewhat unusual approach." He hastened to assure the Commission that when the escape clause hearings began on duties for watch movements as opposed to watch parts, "we will be heard, I hope effectively, in crying against any disturbance of the present tariff structure in any downward form."

The question that is raised by the proposal to restore the escape clause rates is whether, with respect to this one industry, ignoring the growth and present prosperity of the domestic manufacturers, ignoring also the proofs of injury required under the escape clause. Congress will impose permanently what are essentially the Smoot-Hawley rates on these products—alone or almost alone among products in the Tariff Schedules of the U.S. I hasten to add that imposition of quotas on watch imports would be equally unfair.

DOMESTIC COMPANIES DOMINATE U.S. MARKET AND SEEK EXCLUSIVE PRESERVE

Such protection is surely unwarranted. We do not know the current figure, but the domestic watch manufacturers were responsible for approximately 60 percent of U.S. watch sales at the time the Tariff Commission issued its report to President Johnson in March 1965. In other words, a small handful of firms accounted for three-fifths of all watches sold in the United States compared to two-fifths for the hundreds of firms comprising the importer-assembler segment of the industry. Each of the major domestic companies is larger than the largest of the importer-assemblers. There are certainly few consumer industries in which a small group of companies dominates so large a segment of the market.

In a nutshell, this dispute is about how large a guaranteed market companies like Timex ought to have. The various studies conducted by the Administration between 1963 and 1967 demonstrated to the satisfaction of any objective observer that Timex and the other domestic companies can compete successfully at the pre-escape clause rates. The Administration was obviously convinced that the threat to pick up and move overseas is an empty threat. What these companies are asking for is, very simply, an exclusive preserve.

DOMESTIC WATCH PRODUCTION HAS INCREASED 130 PERCENT SINCE 1954

We turn now to a more detailed examination of watch industry trends. Even so, we have only touched the high points here of a very complicated situation.

As previously indicated, during the 12½ years while the escape clause tariff rates were in effect, the domestic watch industry made a substantial and successful adjustment to import competition. As shown in Table 1 (attached), apparent consumption of U.S.-made watch movements rose from 7.2 million units in 1954, the year the escape clause increases were imposed, to 16.6 million in 1967, an increase of 130.6 percent.

I am sorry that dollar figures are unavailable, but it is nevertheless instructive to compare the 130.6 percent increase in the volume of U.S. watch production from 1954 to 1967 with increases in sales recorded by other U.S. manufacturing industries during the same period. As shown in Table 2, manufacturers sales in U.S. durable goods industries increased 95.6 percent in that span, and manufacturers sales in non-durable goods industries increased 87.6 percent. Among the major subcategories of manufacture, there are only three in which the rate of increase exceeded 130 percent—instruments, plastics, and electrical machinery which includes the electronics industry. These three subcategories encompass most of the real “high flyers” in American industry during the past decade-and-a-half.

“DOMESTIC” COMPANIES ACCOUNT FOR LARGE PROPORTION OF INCREASED IMPORTS SINCE 1954

Watch imports have also increased. Yet, based on the report to the President issued by the Tariff Commission following its comprehensive review of the watch escape clause action, imports by importer-assembler firms in 1963 were 10 percent below their 1953 level; on the other hand, imports of watches and watch movements by the domestic manufacturers themselves had increased more than 95 percent. The trend is shown in Table 3. No figures of this type are available for years after 1963, though imports by importer-assemblers have probably increased faster than those of the domestic producers in the last couple of years.

One reason for the decline in imports by importer-assemblers registered during 1963 was the sharp expansion which occurred in that year in shipments of watch movements entering the United States duty-free from the U.S. Virgin Islands. The first firm to assemble movements in the U.S. Virgin Islands was Standard Time Corporation, now a subsidiary of the Hamilton Watch Company. U.S. Time and Bulova also own subsidiaries in the Virgin Islands, as do General Time, Benrus, and Sheffield, among other mainland companies. Hamilton, Bulova, and U.S. Time together have quotas to ship about 1.3 million units in 1968 or approximately 25 percent of the total allotted to the V.I.

In the last couple of years, dutiable watch imports have increased substantially, primarily as the result of the spectacular growth in the market for ladies' fashion watches, including pendant watches worn on a chain around the neck and, more recently, wrist watches in the so-called “mod” or “go-go” styles. As the U.S.

Tariff Commission has pointed out, imported fashion watches satisfied a new demand and thus did not compete to any significant extent with domestic production. Initially an inexpensive vogue item for teen-agers, fashion watches subsequently caught on as a medium-priced or relatively expensive item of jewelry for older women. Domestic producers began to compete in this market only after it was carved out by the importers. The recent increase in watch imports has certainly not come at the expense of the domestic industry. On the contrary, imports helped to establish an important new watch market in which the domestic manufacturers themselves are now competing.

DOMESTIC EMPLOYMENT HAS PROBABLY INCREASED SINCE 1954

Employment in watch production fluctuated within a relatively narrow range from 1954 through 1965 and, at the end of the period, was down slightly from the 1954 level. In 1966 and 1967, domestic watch production increased a total of approximately 3 million units. Bulova reported in 1967 that its employment was at an all-time high. Hamilton reported earlier that it had hired 500 new workers in 1965 and anticipated hiring an additional 500 in 1966. U.S. Time's domestic employment has trebled over the years. While these increases are certainly not attributable entirely to watch production, neither are they consistent with the picture of an aging work force that is being driven to the wall by import competition.

Statistics recently reported by the Department of Commerce indicated that employment of production workers in the watch and clock industry rose from 18,308 in 1958 to 22,832 in 1966, up about 25 percent. Much of this increase was undoubtedly in clock assembly, but it must also reflect increased employment by watch-importer assemblers, as well as the stable trend in employment in watch movement production. In addition, production employment in the watch case industry rose from 2,227 in 1958 to 3,591 in 1966, an increase of more than 60 percent.

In summary, while we do not have complete figures at our disposal, we believe that total employment in the U.S. watch industry and its supplier industries has risen since 1954, probably by a couple of thousand or 10-15 percent.

DOMESTIC COMPANIES HAVE STRENGTHENED THEIR COMPETITIVE POSITION SINCE 1954

Since the escape clause action of 1954, the watch industry has undergone a series of changes which markedly strengthened the competitive capability of the firms which produce watch movements domestically. Chief among these changes is the growth of U.S. Time, or Timex, from a relatively unimportant company into the giant of the industry.

By its own proud boast, U.S. Time is the world's largest watch company, marketing more than 40 percent of the watches sold in the United States. Its sales last year amounted to \$201 million, representing incidentally a 40 percent increase over 1966 and a 169 percent increase since 1962. I would remind you that this latest increase of 40 percent came after the tariff reduction which occurred in January 1967. *Forbes* magazine recently estimated (June 1, 1968) that U.S. Time last year earned a return on stockholders' equity of 25 percent. The most recent *Fortune* 500, reporting on 1967 results, showed just 11 of the 500 largest industrial companies in the U.S. with a higher earnings rate on invested capital. Xerox, to use a familiar bench mark, earned 24.0 percent and stood 13th on the earnings rate list. Among those who trailed Timex: General Motors (17.6%), IBM (17.4%), RCA (17.4%), Litton Industries (16.4%), Coca-Cola (22.5%), Pfiser (13.9%), Texas Instruments (9.5%), LTV (13.9%), and Eli Lilly (19.2%), all regarded as exceptionally profitable companies. According to *Forbes*, U.S. Time's earnings per share have increased 200 percent since 1962. U.S. Time is a privately-held company. If it were a public company, it would, of course, be represented in the *Fortune* 500.

Forbes recently quoted U.S. Times Vice President Robert E. Mohr as saying: "Labor may be cheaper in Switzerland, but through automation we can keep our costs down." In view of U.S. Time's growth, its obvious profitability, and its remarkable dominance of the low price market, no one can seriously question this company's ability to take care of itself competitively. In fact, it is ironic that this company—which sells five or six times as many watches as its closest competitor and is substantially more profitable than any other firm in the industry—should come before Congress and ask to be protected from competition.

The other principal domestic producers are also enjoying unprecedented prosperity, as shown in Table 4. Bulova's sales in the year ended March 31, 1968, were \$139.8 million, up 13 percent from \$123.9 million a year ago. Profits were \$4.5 million, an increase of 15½ percent from \$3.9 million a year ago. The results in the year ended March 31, 1968, represented an all-time record for the company, the previous records having been established in the year ended March 31, 1967. Since 1962, Bulova's sales have increased approximately 122 percent. Bulova officials have stated flatly that the reduction in the escape clause rates "imposed no economic penalty on the company." The Long Island *Newsday* last year quoted Bulova President Harry B. Henshel as saying that Bulova is working at peak capacity, "particularly at its Long Island plants," where the phenomenally successful Accutron is produced for the U.S. market. Bulova officials told stockholders on June 13, 1967, "in the next two years we will continue to expand our manufacturing facilities for both watch cases and movements." More recently, in March of this year, Bulova's national sales manager, Michael D. Roman, forecast that Accutron would be the "leading selling watch brand in the United States in dollar volume within three years."

Hamilton increased its sales during the year ending January 31, 1968, to \$68.4 million, a new high, and an increase of 81.9 percent since 1962. Hamilton's earnings were below the record level achieved in 1966 because of—and I quote here from the most recent annual report—"difficulties with a major military contract involving heavy training expenses, difficulty in obtaining parts from certain vendors, and high investment in inventories." The annual report forecast "a good year in 1968" and predicted that "industry-wide sales of watches probably will reach new highs." Arthur B. Sinkler, now the firm's chairman, said in 1967 that Hamilton's factory in Lancaster, Pa., was operating "at near-capacity levels." First quarter results for 1968 showed an increase of more than 45 percent in sales and of about 75 percent in profits (\$19,240,000 and \$414,000 in the quarter ended April 30, 1968, compared to \$13,050,000 and \$237,000 in the first quarter of the previous fiscal year).

General Time, which is a relatively small factor in the watch business though a major producer of clocks, also achieved record sales of \$129.5 million in 1967 and, according to *Forbes*, boosted sales during the most recent 12-month period to \$132.8 million, a gain of 92 percent since 1962.

Spokesmen for the domestic companies have been extremely optimistic about the future. Harry B. Henshel of Bulova, in December of 1967, forecast "an all-time record watch market in the United States in 1968," with an increase in unit sales of "at least 10 percent during the next 12 months." We have already mentioned the forecast by Mr. Roman of Bulova regarding his expectation for the Accutron. Hamilton's President Richard J. Blakinger, also in December 1967, predicted that watch sales "should reach a new high of 46 million units and exceed \$1 billion in 1968." He said that "the pace is accelerating as we enter 1968." In announcing his firm's first quarter results for 1968, Mr. Blakinger said: "We look for continuing improvement for Hamilton through the balance of the year. Based on incoming orders and operating performance so far, we expect all divisions to complete the year ahead of 1967 in both sales and profits."

A second major development in recent years has been the marked trend toward the internationalization of watch production. This trend has affected the domestic manufacturers as well as it has affected most other watch producers in the world.

U.S. Time and its affiliates now have factories in England, Scotland, France, West Germany, Canada, Puerto Rico, and the U.S. Virgin Islands, as well as in the continental U.S. In addition to producing watches for marketing abroad—and I would note that, according to *U.S. News & World Report* of August 21, 1967, Timex now accounts for one-third of the watches sold in Britain, 20 percent in France, and about 10 percent in West Germany—these factories also produce parts for incorporation in the watch movements which U.S. Time manufactures domestically.

In testimony before the U.S. Tariff Commission in March 1964, a U.S. Time executive asserted that "the importation of parts keeps our labor force at work here." He was saying, in other words, that U.S. Time has taken advantage of international specialization to achieve the lowest possible unit cost of production on the millions of watch movements it produces in the United States. This technique is one very important reason for U.S. Time's fantastic success and has led to a many-fold increase in the company's U.S. employment.

In light of U.S. Time's current position on watch tariffs, it is extremely interesting that this statement was made by the U.S. Time spokesman at hearings in advance of the Kennedy Round negotiations and was designed to persuade U.S. negotiators to grant a full 50 percent reduction in U.S. tariffs on watch parts, the maximum permitted under the Trade Expansion Act of 1962. U.S. negotiators did, in fact, agree to a full 50 percent reduction in tariffs on watch parts—as contrasted to a 33⅓ percent reduction from the 1930 level in the tariffs on most watch movements after the rollback. We believe that U.S. Time continues to enjoy the advantages of international specialization based on production of certain parts in its foreign factories, production of other parts in its U.S. factories, and assembly of completed movements for the U.S. market in Puerto Rico, the Virgin Islands, and in the continental United States.

Certainly there is no basis in fact for the subterranean argument encountered again and again that U.S. Time could do better by shutting up its U.S. factories and supplying the American market entirely from abroad. On the pin-lever watches which continue to be the mainstay of U.S. Time's business, the protection which the company *continues* to enjoy since the tariff reduction amounts to approximately 75 cents per unit, which is considerably in excess of anything U.S. Time could possibly save by producing movements abroad instead of in the United States.

The other major domestic manufacturers are also substantial importer-assemblers. Bulova has foreign facilities in Toronto, Canada, and in Bienne and Neuchatel, Switzerland. In 1960, it acquired majority control of the Recta Watch Company of Bienne. Also in 1960, Bulova established a new subsidiary, Bulova International Ltd., in Bermuda to import jeweled-lever watches from the Citizen Watch Company of Japan. Bulova's Caravelle line, utilizing principally Japanese movements, has become one of the market's major brands in recent years. In 1967, Bulova acquired Universal Geneve, one of Switzerland's most prestigious watchmakers. Today Bulova is the largest single manufacturer in Switzerland and the largest U.S. importer. It also operates a substantial facility in the U.S. Virgin Islands.

Hamilton established a Swiss manufacturing subsidiary, Hamill S. A., in 1969, and subsequently purchased all the outstanding stock of A. Huguenin Fils, S.A., of Bienne, which had been Hamilton's major supplier of imported watch movements since 1952. A Japanese affiliate, the Hamilton-Ricoh Watch Company, which is 60 percent owned by Hamilton, was established in 1962. In 1966, Hamilton acquired the Buren Watch Company, a leading Swiss manufacturer. In addition, in October 1967, Hamilton purchased the Semca Watch Company and organized a new subsidiary, Vantage International G.m.b.H. in Pforzheim, West Germany, to provide watch movements for Hamilton's Vantage line. Additionally, Hamilton owns and operates Standard Time Corp., the oldest and largest of the watch firms in the U.S. Virgin Islands.

General Time has subsidiaries in Mexico, Canada, Brazil, Scotland, and Hong Kong, as well as in the U.S. Virgin Islands.

In brief, each of the domestic manufacturers has become a major international company, with world-wide production and marketing facilities. Each is a major importer for the U.S. market. This trend toward internationalization took place for the most part *after* the tariff increase of 1954. It came about, in part, because higher tariffs shut out inexpensive jeweled-lever watches and opened the way for Timex to grab the lion's share of the low price market. Timex found a formula for manufacturing some parts overseas and some parts in the U.S. that enabled it to take advantage of scale economies in both places. U.S. Time's example, and, equally important, its challenge in the marketplace forced the other companies, like Hamilton, to revise their traditional marketing strategy and to broaden their base of supply. The sudden and spectacular growth of watch operations in the Virgin Islands added to the ferment, affecting everyone in the industry—both those who went to the Virgin Islands and those who did not.

The simple fact is that today the watch industry has become a truly international industry. Even though Switzerland remains by far the largest producer, Swiss and other foreign-based companies, like those in the United States, are using facilities in a number of nations to make watches with components from a variety of sources. Already watch movements are made from parts produced in several countries, assembled in cases manufactured in yet another country, and completed with bracelets or watch bands made in still another country. I believe we will see more of this in the future. I also believe firmly that there will

continue to be a large and growing role for the American watch industry in this picture.

Developments in 1967 confirm that the domestic producers are perfectly capable of competing effectively at current rates of duty. As reflected in Table 1, domestic production in 1967 reached 16,599,000 units, an all-time high and an increase of 9.2 percent from the 1966 level. Dutiable imports amounted to 22,913,000 units, only an increase of 6 percent. Shipments from U.S. insular possessions, which are entered free of duty under a special tariff provision, dropped 30.6 percent to 3,782,000 units.

As the Committee knows, shipments from U.S. possessions are controlled under a system of quotas enacted by Congress in 1966. It is important to note, however, that the decline last year was greater than that required by the quota system. Because watch movements produced in the islands must be able, in order to qualify for duty-free treatment, to sell on the mainland for more than twice the value of their foreign components, the rollback in the tariff on dutiable watch movements had a substantial impact on insular production. Many watch companies in the Virgin Islands and Guam failed to produce up to their quotas in 1967. In fact, most observers are convinced that if it had not been for the desire of operators in the islands to keep their production as high as possible in order to retain their quotas for 1968, insular watch production would have been even lower in 1967.

Thus, in spite of the tariff rollback, which might naturally have been expected to stimulate imports relative to domestic production, the total number of watches and watch movements entering the United States from offshore sources—i.e., dutiable imports plus shipments from the U.S. Virgin Islands and Guam—actually declined 1.3 percent last year. As I pointed out a moment ago, domestic production in contrast rose 9.2 percent. This development substantiated the prediction which the AWA made in 1964 in its testimony before the U.S. Tariff Commission. We said at that time that the principal result of restoring the 1936 tariffs would be to limit production in the Virgin Islands and Guam and that the domestic companies, particularly U.S. Time, would pick up a substantial share of the market vacated by merchandise from the islands. Experience has demonstrated that we were correct.

I have dwelt on this point at some length because developments in 1967, following the rollback, tend to prove that the President was entirely right in his assessment of the industry's situation. That the domestic producers have made a successful adjustment during the 12½ years while the escape clause was in effect is shown by their resilience in dealing with the consequences of the rollback.

Spokesmen for the domestic producers respond by pointing out that there are fewer domestic watch producers today than there were in 1950. They call attention to the recent decision of the Elgin National Watch Company to quit domestic production as evidence that the prosperity of the domestic industry is a false glow. On the surface, the argument is a highly plausible one. But only on the surface. The fact that there are only four surviving U.S. automobile manufacturers is scarcely a sign that the automobile industry is failing. Nor does the dominance of General Electric and Westinghouse foreshadow the decline of the electrical industry.

Elgin got into difficulty because of bad management decisions. Elgin's domestic production was highly inefficient, utilizing old-fashioned methods and obsolete machinery. For example, Elgin had cutting machines which cut one tooth at a time without using automatic feeders. A worker could produce 1,800 parts a day on these machines. On the modern cutting and milling equipment employed by Elgin's competitors, a worker can produce 10 to 15 times as many parts. Many other examples of inefficient production practices could be cited.

In the early 1960's, Elgin also experienced serious financial difficulty because of what were described as substantial "cost overruns" on defense contracts. The company lost \$13.9 million in the 1962-66 period, and shareholders' equity—that is, net worth—dropped from \$19.7 million in 1963 to \$8.9 million in fiscal 1965. The company's troubles, resulting from an ill-advised attempt at diversification, sparked a bitter proxy fight leading to the ouster of Elgin's previous management and the company's complete reorganization. The company abandoned its defense operation entirely and cut back its sales from a high of \$66.2 million in the year ended February 29, 1964 to \$38.7 million in the year ended February 29, 1968. Indeed, Elgin's sales in fiscal 1968 were 11 percent below fiscal 1962.

With the company in a weakened position financially, the new management decided that instead of investing in a costly modernization program it would

shift production to its other plants in the U.S. Virgin Islands and abroad. Elgin's failure, in short, was a management failure. We see no basis in the Elgin example for concern about Bulova, Hamilton, or U.S. Time.

PROPOSED BILL ATTACKS THE BASIC PROCEDURES ESTABLISHED BY CONGRESS

Gentlemen, it seems to us that fundamental trade policy questions are raised by these proposals to limit watch imports, whether by restoring the escape clause tariff rates or by imposing a ceiling on imports as a prelude to a possible quota. Last year, American consumers purchased about 43.3 million watches. Of this total about 16.6 million were U.S.-made, 22.9 million contained imported movements, and 3.8 million contained movements entered free of duty through the U.S. Virgin Islands and Guam.

The real issue posed by H.R. 11738 to this Committee, it seems to us, is the integrity of the procedures and guidelines which the Congress has enacted over the years for the conduct of United States trade policy. Surely, after 12½ years under the escape clause and a careful economic review which documented the successful adjusted of the domestic producers, Congress will not arbitrarily put aside the procedures which it has established—and which have been fully utilized in this case, thus confirming confidence in them on the part of the trading community. The existence of fair and dependable procedures is essential to the reciprocal trade program and to orderly trade relations with the rest of the world.

From the standpoint of the watch industry, I must add that the Herlong bill would be no less damaging than the proposal to restore the escape clause tariff rates. Section 5(d) (3) of that bill would require the certification of a ceiling on imports which supply more than 40 percent of domestic consumption and have increased 15 percent since 1960. Since 1960, U.S. watch consumption has increased more than 90 percent; imports have increased about 75 percent. Although watch imports today supply a smaller portion of the domestic market than they did in 1960, a ceiling would be imposed by this legislation requiring a cutback of approximately 1.5 million units from present import levels. In addition, we are opposed to H.R. 16926 and similar bills because of the administrative difficulties and inequities which inevitably accompany a quota system.

Thank you for giving us this opportunity to present our views.

Table 1.—Apparent consumption of U.S.-produced watch movements

Year:	[In units]	Volume
1954.....		7, 183, 000
1955.....		8, 358, 000
1956.....		9, 286, 000
1957.....		7, 782, 000
1958.....		9, 448, 000
1959.....		11, 282, 000
1960.....		9, 475, 000
1961.....		9, 668, 000
1962.....		11, 919, 000
1963.....		12, 135, 000
1964.....		11, 970, 000
1965.....		13, 609, 000
1966.....		15, 192, 000
1967.....		16, 599, 000

NOTE.—Apparent consumption of domestic watch movements represents domestic production of watch movements in the U.S. minus U.S. exports of watches containing such movements.

Source : U.S. Tariff Commission.

TABLE 2.—U.S. MANUFACTURERS SALES

[Dollar amounts in billions]

	1954	1967	Percent increase
Durable goods industries.....	\$141.9	\$277.5	95.6
Nondurable goods industries.....	138.3	259.5	87.6
Stone, clay, and glass products.....	7.4	11.8	59.5
Primary metals.....	23.9	42.6	78.2
(Blast furnaces, steel mills).....	(13.2)	(22.2)	(68.2)
Fabricated metal products.....	15.4	25.7	66.9
Machinery, except electrical.....	18.8	43.1	129.3
Electrical machinery.....	16.2	40.9	152.5
Transportation equipment.....	37.2	73.0	96.2
(Motor vehicles and parts).....	(21.8)	(42.2)	(93.6)
Instruments and related products.....	3.6	10.7	197.2
Food and kindred products.....	50.6	92.4	82.6
Tobacco products.....	3.4	5.1	50.0
Textile mill products.....	11.6	19.2	65.5
Paper and allied products.....	10.5	22.5	114.3
Chemicals and allied products.....	17.9	40.1	124.0
Petroleum and coal products.....	13.1	21.3	65.6
Rubber and plastics products.....	5.1	13.3	160.8

Source: Statistics for 1954 from Business Statistics: 1967, 16th Biennial Edition, U.S. Department of Commerce, Office of Business Economics, pp. 24-45. Statistics for 1967 from Survey of Current Business, May 1968, p. S-5.

TABLE 3.—IMPORTS BY DOMESTIC WATCH MANUFACTURERS VERSUS IMPORTS BY OTHER IMPORTER-ASSEMBLERS
[In units]

	Dutiable imports by U.S. watch manufacturers	Dutiable imports by other importer- assemblers
1953.....	1,925,000	9,950,000
1954.....	1,911,000	7,106,000
1955.....	1,903,000	7,452,000
1956.....	2,070,000	10,192,000
1957.....	2,246,000	9,997,000
1958.....	1,976,000	8,411,000
1959.....	2,738,000	10,734,000
1960.....	2,804,000	10,354,000
1961.....	2,458,000	10,169,000
1962.....	3,231,000	10,567,000
1963.....	¹ 3,774,000	¹ 8,971,000
1964.....	(²)	(²)

¹ Only the 1963 statistics reflect all imports by U.S. producers. If statistics for 1953-62 were available on the same basis the effect would be to increase the quantity of imports credited to U.S. watch manufacturers and to decrease the quantity credited to importer-assemblers by an unknown amount. Undoubtedly, this amount was near zero in 1953 but fairly sizable during 1962.

² In 1964, according to the U.S. Tariff Commission, U.S. producers brought in 4,200,000 units, including both dutiable imports and shipments from the U.S. Virgin Islands; however, the Tariff Commission did not specify how many were dutiable imports.

Source: Statistics for 1953-62 based on table 3, sales of products by U.S. establishments in which watch movements are produced; and table 7, U.S. imports for consumption, U.S. Tariff Commission, Watch Movements, Preliminary Statistical Data for Use in Connection with Investigation No. TEA-1A-2 (Apr. 28, 1964). Statistics for 1963 from table 7 estimated U.S. consumption by supplier, origin, and type, 1963, U.S. Tariff Commission, Watch Movements, Report to the President on Investigation No. TEA-1A-2 Under sec. 351(d)(2) of the Trade Expansion Act of 1962.

TABLE 4.—DOMESTIC WATCH MOVEMENT MANUFACTURERS FINANCIAL SUMMARY

[In millions of dollars]

	1968	1967	1966	1965	1964
Bulova (years ended Mar. 31):					
Net sales.....	\$139.8	\$123.9	\$99.8	\$84.2	\$73.0
Net income.....	4.5	3.9	3.2	2.8	2.4
Current assets.....	(1)	99.3	88.2	74.0	62.2
Current liabilities.....	(1)	41.9	32.2	18.9	26.3
Stockholders' equity.....	(1)	46.4	43.4	41.3	39.4
	1967	1966	1965	1964	1963
General Time:					
Net sales.....	\$129.5	\$110.8	\$91.6	\$79.9	\$73.6
Net income.....	3.8	3.3	2.5	1.9	1.4
Current assets.....	(1)	(1)	42.4	40.1	33.1
Current liabilities.....	(1)	(1)	16.6	14.2	10.8
Stockholders' equity.....	(1)	(1)	32.3	30.9	29.4
	1968	1967	1966	1965	1964
Hamilton (years ended Jan. 31):					
Net sales.....	\$68.4	\$61.9	\$44.8	\$38.1	\$37.1
Net income.....	1.9	2.6	2.0	1.1	.6
Current assets.....	50.7	40.4	26.8	23.4	23.3
Current liabilities.....	7.6	12.4	4.3	3.0	7.5
Stockholders' equity.....	31.9	27.3	21.4	18.2	17.7
	1967	1966	1965	1964	1963
U.S. Time:					
Net sales.....	\$201.6	\$143.0	(2)	\$90.9	\$83.5
Net income.....	(3)	(1)	(1)	5.4	4.0
Current assets.....	(1)	(1)	(1)	30.9	(1)
Current liabilities.....	(1)	(1)	(1)	13.3	(1)
Net worth.....	+40	(1)	(1)	25.4	23.1

¹ Not available.² U.S. Time Chairman and President Joakim L. Lehmkuhl said that the company's sales topped \$100,000,000 in 1965, according to Newsweek, Mar. 16, 1966.³ "Well over \$10,000,000" or 25 percent of stockholders' equity according to estimate by Forbes, June 1, 1968.

Mr. ULLMAN (presiding). We thank you very much, Mr. Lowe.
 Are there questions?
 You have been very helpful to the committee. You have a very fine paper.

We appreciate your appearance.

Mr. LOWE. Thank you, sir.

Mr. ULLMAN. Mr. Carmody.

Mr. Carmody, we are very happy to have you before the committee.

STATEMENT OF EDWARD T. CARMODY, VICE CHAIRMAN AND DIRECTOR, TIMEX, THE U.S. TIME CORP.; ACCOMPANIED BY RONALD MARSCHING, SECRETARY AND GENERAL COUNSEL

Mr. CARMODY. Thank you very much, Mr. Chairman.

Mr. ULLMAN. For the record, would you please identify yourself and your colleague and with the understanding your full statement will appear in the record, proceed as you see fit, sir.

Mr. CARMODY. Thank you very much.

My name is Edward Carmody. I am a director and vice chairman of the U.S. Time Corp., with headquarters in Middlebury, Conn.

With me is Mr. Ronald Marsching, secretary and general counsel of the U.S. Time Corp.

We will summarize here the brief we have filed with the committee.

Our company was established in 1857. We make the Timex watch, and in this testimony I will refer to the Timex group of companies, including our affiliated companies, as Timex.

Timex has watch factories in the mainland U.S.A., in Middlebury and Watertown, Conn.; Little Rock, Ark.; and Abilene, Tex. We also produce watches in Puerto Rico and the Virgin Islands; Toronto, Canada; Dundee, Scotland; Feltham, England; Pforzheim, West Germany; Besancon, France; and Hong Kong, and are in the process of building a plant in Taiwan.

We have research laboratories in Middlebury, Irvington-on-Hudson, N.Y., and in Scotland, France, and England.

We are the world's largest producer of watches. And from all I have just enumerated, you might gather that there was not a cloud in our sky, and wonder why we are here.

Specifically, we are here to support H.R. 11738, which would restore tariffs on watch movements to the levels prevailing immediately prior to the action of the President on January 11, 1967, which removed escape clause rates for imported movements, and to oppose H.R. 17551, which among other things would permit the President further to reduce the tariffs on movements.

It is almost 20 years ago that we began to come to Washington to plead for the survival of the horological industry in the United States, and to prophesy its eventual extinction unless it was given tariff or quota protection.

Eighty-five percent of the cost of a watch is labor, and it was obvious to us that with the productivity of foreign labor being the equal of ours here in the United States, and with foreign labor rates a fraction of ours here in the United States, there was no place for our domestic watch and clock industry to go but out.

For whatever consolation it gives us, we have been good prophets.

In 1957 the Waltham Watch Co., discontinued the production of watches. In 1959, New Haven Clock and Watch Co., went out of business. In the same year, Ingraham Co., gave up the production of wrist watches. In 1963, Precision Time Co., went into bankruptcy. In 1964, General Time Corp., gave up the production of wrist watches. In that same year, Elgin Watch Co., which a year earlier had closed its Elgin, Ill., plant and discontinued all domestic production of men's watches, discontinued the manufacture of all watches in the United States.

And now Hamilton Watch Co., is planning further restrictions on the number of calibers it makes in the United States.

So here we are, almost 20 years later, the only domestic manufacturer of wrist watches which does not also manufacture watches in Switzerland. And the only reason we are still here is that our foreign plants supply us with about half the parts that go into our Timex watches.

This state of affairs, of course, makes the Swiss watch cartel rejoice—which cartel the U.S. District Court for the Southern District of New York in 1962 found, in an opinion of over 100 pages, guilty of violating the U.S. antitrust laws.

And the Tariff Commission reached the same conclusion in its June 1966 report to the President—also over 100 pages.

And the free traders among us think that this attrition in the ranks of our industry is a necessary step forward toward the Utopia they envision, when all tariffs and trade barriers have been abolished.

We do not question the motives of the free traders, but we cannot understand their lack of concern over who will supply our country—speedily and in volume—with artillery fuzes and other small and intricate armaments, when they are needed.

The Defense Department, at least the top echelon of the Defense Department, was of the opinion in 1966 that as to other domestic industries not presently making such fuzes and armaments:

* * * as a result of the experience they were gaining in the current procurement program to meet Vietnam needs, their capability for making the more difficult mechanical timing devices used in fuzes and other ordnance items will increase substantially.

Well, said capabilities do not seem to have increased substantially enough, because, just as they did in World War II and the Korean action, the Defense Department has had to come back to what is now left of the domestic horological industry for mechanical time artillery fuzes for Vietnam and this industry is the only industry supplying them—critically as they have been needed.

In 1964, the Special Preparedness Investigating Subcommittee of the Committee on Armed Services of the U.S. Senate looked carefully into the importance of the horological industry to national security. Their conclusion was forthright, to wit: that the watch industry was involved in over 90 percent of our missile programs; that it was the only industry capable of making timing devices for certain nuclear weapons; that there is a definite need for the industry in the field of miniature timing devices of many kinds, both for current and emergency production; and that Russia, Red China, Japan, France, and Germany have been fostering their watch industries, while the United States allows it to wither.

It would be a foolish prophet who does not heed his own prophecies. We have, perforce, heeded ours.

For more than 10 years, seeing the apathy of Government toward the plight of our industry, we have been making ready for the day when we, too, will have to disappear from this country.

Timex has established the foreign plants I have mentioned above, has examined the possibilities of establishing plants in six additional countries, and has bought land in two of them.

We never forget that figure—that 85 percent of the cost of a watch is labor. And we observe the labor rates not only in Europe, but especially in Japan, Russia, and Red China, and reflect at the same time on the additional assistance all foreign watchmakers are offered here by our descending tariffs.

It takes a long time to make a watch plant in a foreign country self-contained and profitable. It takes many years just to train the toolmakers required. But we have been working at it. We have no other choice. We know that, in time, unless we are given, with urgent speed, help from our own Government, we will have gone the way so many of our industry have been forced to follow—out.

Thank you.

(Mr. Carmody's prepared statement follows:)

STATEMENT OF EDWARD T. CARMODY, VICE CHAIRMAN AND DIRECTOR,
TIMEX, THE UNITED STATES TIME CORPORATION

My name is Edward Carmody. I am a Director and Vice Chairman of The United States Time Corporation of Middlebury, Connecticut—manufacturers of TIMEX watches. We were established in 1857. We are the world's largest producer of watches. In this testimony I will refer to TIMEX, including our affiliated companies, as TIMEX.

TIMEX has watch factories in the mainland U.S.A. in Middlebury and Watertown, Connecticut, Little Rock, Arkansas and Abilene, Texas. We also produce watches in Puerto Rico and the Virgin Islands, Toronto, Canada, Dundee, Scotland, Feltham, England, Pforzheim, West Germany, Besancon, France and Hong Kong and are in the process of building a plant in Taiwan. We have research laboratories in Middlebury, Irvington-on-Hudson, New York and in Scotland, France and England.

Specifically, we are here to support H.R. 11738 which would restore tariffs on watch movements to the levels prevailing immediately prior to the action of the President on January 11, 1967 which removed Escape Clause rates for imported movements and to oppose H.R. 17551 which among other things would permit the President further to reduce the tariffs on movements. Existing tariffs on movements which were originally established in 1930 have over the years been reduced approximately 38% by administrative action. But additional penalty exists in these tariff rates because they are fixed in amount rather than ad valorem so that they have in effect been reduced approximately 34% by inflation. Consequently today's tariffs on movements are approximately 72% lower than the tariffs in effect in 1930. We will be glad to furnish to the Committee the statistical data underlying these figures.

I want first to tell you something about our company, then briefly to picture for you the chaotic condition of the watch industry in the United States, including the extent to which it is controlled by the Swiss watch cartel, and finally the effect upon the national security of depriving this nation of the capacity to produce mechanical time artillery fuses for the military which are now supplied only by the domestic horological industry—an industry that will cease to exist under the prevailing trend of tariffs.

THE BUSINESS OF TIMEX

From its inception in 1857 to the end of World War II, TIMEX had never manufactured outside the United States.

During World War II, TIMEX was a principal producer for the United States Government of mechanical time artillery and anti-aircraft fuses as well as such aircraft instruments as screw jack actuators, hook retractors, shutter controls, depth controlled gears and oil pressure gauges. At the time of the Korean conflict TIMEX was the largest producer in the United States of mechanical time artillery fuses, producing 25,000 fuses per day, in addition to safety devices for proximity fuses. Today, artillery fuses are produced by TIMEX under government contract and various types of timing mechanisms are produced for, among others, Sandia Corporation, contractor for the Atomic Energy Commission. TIMEX is now a very substantial supplier of the M-564 and M-565 mechanical time fuses for the Army. Following World War II, TIMEX resumed the production of civilian timepieces and in 1949 introduced TIMEX watches in the United States. TIMEX at this time makes over 80% of the watches produced in the United States because our competitors have been compelled to abandon domestic production due to lower foreign production costs.

In the 1940's and 1950's TIMEX opened plants in Scotland, England and West Germany, and in 1962 opened an additional plant in France. TIMEX supplies the entire world demand for TIMEX watches, outside the United States, from its foreign plants. Domestic plants cannot compete abroad. About 50% of the parts TIMEX uses in the domestic manufacture of watches are imported from its plants abroad. The primary purpose of our building plants abroad has been to insure a flow of parts and movements which would keep us competitive in the domestic market.

TIMEX employs about 9,000 people in the United States and about 8,000 abroad. About 3,500 of these people are employed by us at Little Rock, where we have received an award from the Urban League for our non-discriminatory employ-

ment practices and our contributions to race relations. Unfortunately, most of our negro employees have much less seniority than our white employees and therefore under seniority requirements they would be the first to go if and when that labor force is reduced. We are told by the Arkansas State Unemployment Agencies that there is no employment available locally for those potentially unemployed persons except domestic work.

THE DOMESTIC HOROLOGICAL INDUSTRY

Since before World War II the watch industry in the United States has been dominated by the Swiss watch cartel. The nature, character and extent of the Swiss watch cartel is described in detail first, in an opinion of the United States District Court for the Southern District of New York, dated December 20, 1962, *United States v. The Watch Makers of Switzerland Information Center, et al.*, in which the Court found the Swiss watch cartel guilty of violating the United States antitrust laws, and secondly, in a June 1966 Report to the President from the Tariff Commission (T. C. 177). Each is more than 100 pages long.

Perhaps second only to the South African diamond cartel, the Swiss watch cartel is probably the most powerful cartel in the world. Its influence is such that it was able to persuade the Swiss Government to prevail upon the President of the United States, on January 11, 1967, to withdraw the then existing Escape Clause rates on watch tariffs of the United States as a pre-condition to the Swiss Government's participating with the United States and other Governments in the Kennedy Round tariff negotiations in the Spring of 1967.

Existing tariff rates for watch movements were established by paragraph 367(a) of the Tariff Act of 1930. These rates were very substantially reduced by concessions in a Trade Agreement with Switzerland (T. D. 48093), effective February 15, 1936, entered into under the Trade Agreement Extension Act of 1934. Following an Escape Clause investigation by the Tariff Commission, pursuant to the Trade Agreements Extension Act of 1951, and on the recommendation of the Tariff Commission, the President on January 27, 1954 increased the duties on watch movements by Proclamation No. 3062 to roughly the levels established by the Tariff Act of 1930. On January 11, 1967, the President by Proclamation No. 3761 withdrew the Escape Clause tariff rates on watches provided for by the 1954 Presidential Proclamation and reinstated the tariffs provided for by the 1936 Trade Agreement with the Swiss.

At least 85% of the watches imported into the United States are from Switzerland. Excluding TIMEX's sales, approximately 70% of the U.S. consumption of watches are watches produced in Switzerland. In the period 1958 through 1967 domestic consumption of watches increased from 19.8 million to 43.3 million, an increase of approximately 23 million watches. Yet domestic production increased by only 7 million watches (from 9.4 million to 16.6 million). Thus domestic production accounted for less than one-third of the increased consumption during that ten-year period. These data are all from official reports of the United States Tariff Commission.

The specific results of Swiss imports are shown in the following. In 1957 Waltham Watch Company, then a domestic manufacturer of watches, discontinued the production of watches. In 1959 New Haven Clock and Watch Company, then a domestic manufacturer of watches, went out of business. In 1959 Ingraham Company, then a domestic watch manufacturer, discontinued the production of wrist watches and continued domestic production only of pocket watches. In 1963 Precision Time Company, a manufacturer of wrist watch movements, went into bankruptcy, and its plant and equipment were sold in 1964. In 1964 General Time Company discontinued the manufacture of wrist watches in the United States, continuing the domestic manufacture of only pocket watches. In 1963 Elgin National Watch Company closed its Elgin, Illinois plant and transferred its watch-making facilities to a new plant in Elgin, South Carolina, for the announced purpose of reducing production costs. But in 1964 Elgin discontinued all domestic production of men's watches and in 1967 Elgin discontinued the manufacture of all watches in the United States—although its South Carolina plant was but four years old.

The day following the President's January 11, 1967 reduction of tariffs on watch movements, Hamilton Watch Company issued a press release stating:

"The action taken by the President yesterday will not benefit American consumers for through this action the United States will be dependent on foreign cartel-controlled sources for watches.

"So far as the Hamilton Watch Company's future is concerned, Hamilton is fully protected for its sources of supply through both foreign and domestic manufacturing facilities. During the past eight years, we have had watch manufacturing capacity in Switzerland, Japan, and the U. S. Virgin Islands. At the present time, about 40% of the Hamilton watches sold in the United States are manufactured in our factories in Switzerland. We must, as a result of the President's action, anticipate a gradual increase in foreign manufacturing and a lessening of our watchmaking activities in the United States."

As of this date Hamilton reports that it is planning further restrictions in the numbers of calibres it makes domestically.

In the United States today there are but three manufacturers of wrist watches—(1) TIMEX, (2) Hamilton and (3) Bulova—originally a Swiss watch manufacturing company which came to the United States some years ago and now manufactures watches both in Switzerland and in the United States. TIMEX is the only domestic manufacturer of wrist watches that does not also manufacture watches in Switzerland. In the last ten years TIMEX has been forced competitively to make half the parts abroad which it uses in its domestic watch production.

Neither Elgin, which gave up all domestic wrist watch production since the President reduced watch tariffs on January 11, 1967, nor Hamilton imported any watches prior to 1950.

As early as July 1963 the Tariff Commission, apparently ignoring the effect on domestic employment, unanimously found that the losses domestic companies would incur by liquidating their domestic plants would "be partly or fully offset by increased profits arising from increased import operations."

The United States District Court's 1954 decision in the Swiss Watchmakers case found in part:

Since at least 1931 and continuing to date, the defendants (the Swiss cartel and certain domestic importers of Swiss watches) have been engaged and are engaged in a combination and conspiracy to restrain unreasonably the foreign and interstate trade and commerce of the United States in the manufacture, import, export and sale of watches, watch parts and watch-making machines in violation of Section 1 of the Sherman Act and Section 73 of the Wilson Tariff Act.

The Court further found:

The United States watch industry was the Swiss watch industry's biggest competitor, and the restrictions of the Convention¹ have obviously had a crippling effect in this country, and were so intended.

The Court cited examples of the cartel injury to the domestic watch industry including an agreement under which Benrus Watch Company agreed to liquidate certain of its United States watch making facilities which had been converted to war production during World War II.

Despite the injunctions in the District Court's decree against the cartel, the primary source of watches supplying the domestic market is still Switzerland—excluding only that portion of the market supplied by TIMEX.

While TIMEX, Bulova and Hamilton are the only remaining domestic wrist watch manufacturers, and Hamilton and Bulova also manufacture in Switzerland, the cartel continues to expand its control over firms distributing watches in the United States. In recent years the cartel has acquired substantial shares of stock in both Elgin and Gruen. In 1968 financial publications report on negotiations by the cartel to acquire shares in Waltham Watch Company and Bulova Watch Company. See in particular *Forbes Magazine* for June 1, 1968.

It is interesting to compare what has happened to the watch industries of the world since the end of World War II. In 1948 the United States produced 14.3 million watches, in 1963 12.3 million watches, while in 1967 it produced 16.6 million watches. In 1948 the Soviet Union produced 4 million watches, while in 1963 it produced 27 million watches (and *The New York Times* says its 1967 production was 40 million watches). Switzerland increased its watch production between 1948 and 1963 from 24 million to 45 million watches. Japan's watch production was 0.6 million in 1948 and 12 million in 1963. Red China which produced no watches prior to World War II (1948 figures are not available) produced 8 million watches in 1963. In the period 1948-1963 world production of watches increased 250% from 49 million to 123.8 million while United States production of watches declined 15%. These data are from hearings before a Subcommittee of the Senate Armed Services Committee, on August 17, 1964, p. 285.

¹ Which comprised the rules and regulations of the Swiss watch cartel.

From the earliest days of mechanized warfare nations have recognized the importance of their horological industries to national defense. Only the United States seems oblivious.

In commenting on the great growth of Soviet Russian watch production since World War II, a 675% increase between 1948 and 1963, it is pertinent to note an article in the Sunday New York Times of February 18, 1968 which states that Russia sold 40 million watches in 1967 (up 50% from 1963, and 1000% from 1948). That article in The New York Times further reports that Russian-made watches are entering the United States *duty free* through the Virgin Islands, under the tax loophole that permits the duty to be avoided when certain minimal assembly operations take place in the Virgin Islands. It is true that Russian watches are thus being imported into the United States duty free. That article, however, erroneously gives the impression that Russian watches are thus being imported into the United States and sold by TIMEX under the TIMEX trademark. TIMEX is not importing and has not imported into the United States any watches or watch movements, or watches or watch movements made from parts originating in Soviet Russia, either through the Virgin Islands or otherwise.

NATIONAL SECURITY INTERESTS

A Special Preparedness Investigating Subcommittee of the Committee on Armed Services of the United States Senate reported on December 23, 1964, on the importance of the horological industry to national security. The report addresses itself "to the relationship and importance of the domestic watch industry to our national defense and space programs." The report further states that "it is the conclusion of the Subcommittee that the domestic watch industry, now making a significant contribution to our missile, space and other military programs, is important to the national security of the country."

The report showed: (a) that the watch industry was involved in over 90% of our missile programs, (b) that it was the only industry capable of making timing devices for certain nuclear weapons, (c) that there is a definite need for the industry in the field of miniature timing devices of many kinds, both for current and emergency production, and (d) that Russia, Red China, Japan, France and Germany have been fostering their watch industries while the United States allows its to wither.

An investigation of a similar character today would show not only that which the Senate Committee found in 1964, as to the need for this industry for national security, but substantial deterioration since then in the health of the industry and in its capacity to protect the national security in future times of need.

The vast majority of the critical machinery and trained operators in the United States needed for fuses and safety and arming devices are in the domestic watch industry. Even today the United States is required to import from abroad a substantial part of its fuse requirements. As early as 1966 between 150 million and 200 million small gears and pinions were being procured abroad because of domestic shortages of special screw-machine capacity and deliveries of the XM-92 mortar fuses were than being held up because of delays in the delivery of Swiss parts. This situation has prevailed in spite of the fact that a very substantial part of the domestic watch industry is currently at work on the nation's defense needs.

In World War II the watch industry made very substantial contributions to defense requirements. Following World War II, the skilled workmen who produced those military timing devices returned to the manufacture of watches where their skills remained available to national security. In the Korean War again the watch industry made similar contributions and when that war ended those skilled workmen were able to return to the production of civilian watches. The industry has made and is making similar contributions to our military engaged in Vietnam. But if there is no domestic watch industry, because domestic manufacturers cannot compete with foreign producers, there will be no trained pool of watch makers available to the nation in the event of a future need for timing devices to meet the security requirements of the country. Only by the maintenance of a healthy domestic watch industry can these skilled craftsmen be available when needed for the nation's security.

Three examples of emergency requirements of the nation being met by the watch industry are the safety and arming device for the proximity fuse used in Korea and the safety and arming device for the XM-423 and XM-427 fuse for the 2.75 inch rocket for helicopters and jet use in Vietnam. These were-

developments or modifications of stockpile items to meet new requirements and specifications. In all three instances the watch industry met the emergency need. Non-watch companies were brought in later—two years later—as to the XM-423 and XM-427 fuses for additional production.

Even were the Federal Government to "mothball" plants for emergency timing device needs, there is no way to mothball the skilled work force needed to produce such timing devices.

On February 26, 1966, then Secretary of Defense Robert McNamara wrote the Acting Director of the Office of Emergency Planning with respect to the national security aspects of the watch industry. Secretary McNamara concluded that: "The United States watch industry has been an important and responsive source for horological-type items used in rockets, missiles, and ammunition, as well as a supplier of watches, chronometers, and other items." The Secretary noted the domestic production of watches had declined in spite of "escape clause" tariff rates and he predicted a further decline in domestic production, thus proving, in our opinion, that even with the "escape clause" rates, watch tariffs were too low to protect the domestic industry since that decline in domestic production of watches was in the face of a very substantial gain in domestic watch consumption.

The Secretary commented that companies not now involved in watch making were a growing source of capability for horological-type items and that "as a result of the experience they were gaining in the current procurement program to meet Vietnam needs, their capability for making the more difficult mechanical timing devices used in fuses and other ordnance items will increase substantially." The Secretary was referring to the production of timing devices by non-watch making firms which devices had been developed and initially produced by watch making firms. Thus, while non-watch making firms during the six years since the Vietnam action began have acquired a certain capability to produce these fuses, they will return to the production of non-watch commodities at the cessation of hostilities and if the domestic watch industry should cease to exist, then in the event of a future emergency requiring these skills there will be no existing pool of skilled workers or machinery possessing the capabilities necessary to fill those security needs.

TIMEX therefore vigorously urges the enactment of H.R. 11738 to protect what is left of the domestic watch industry and vigorously opposes H.R. 17551 to the extent it can be used further to reduce watch tariffs not only because of the bill's national security implications but in the interest of keeping alive a domestic watch manufacturing industry and in the interest of its employees.

For us, moving abroad will mean embarking upon hazardous ventures, for our employees, loss of employment and for our national defense, a serious elimination of an important source of military matériel.

Mr. ULLMAN. Does that complete your testimony?

Mr. CARMODY. That completes my testimony.

Mr. ULLMAN. Are there questions?

Thank you very much, sir; for your appearance before our committee. We appreciate your testimony.

(The following letters and statement were received, for the record, by the committee:)

AMERICAN WATCH ASSOCIATION, INC.,
New York, N.Y., July 11, 1968.

Hon. WILBUR D. MILLS,
Chairman, House Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. CHAIRMAN: The American Watch Association would like to comment for the record on several issues raised by Edward Carmody of U.S. Time Corporation in his testimony of June 25, 1968, favoring an increase in tariffs on watch movements:

1. Mr. Carmody's charges relating to alleged violations of U.S. antitrust laws by the Swiss watch industry concern conditions and practices which date from before 1954 and which no longer affect the U.S. watch market. Mr. Carmody neglected to point out that a final judgment of the U.S. District Court in New York, entered on February 3, 1965, dealt fully with these past violations of U.S. antitrust law and precluded their repetition. The imposition of any future re-

restrictions on United States domestic or foreign commerce in watches, watch movements, watch parts and watchmaking machinery was specifically prohibited.

The Court's authority to enforce this judgment under its contempt powers, and the Justice Department's broad investigatory authority under the judgment, assure that the Court's orders will continue to be carried out. Indeed, the Department of Justice, in a memorandum to the Court dated December 4, 1964, stated that this judgment effectively assures "free and open competition" in the U.S. watch market, and achieves "the economic and basic antitrust objectives sought by the Government in this action."

Mr. Carmody's references to the findings of the U.S. Tariff Commission in the Section 337 case are simply incorrect. The Commission's June 1966 report stated flatly:

"The record before the Commission does not disclose that the respondents (i.e., the importers and the Swiss industry) are engaged in a combination or conspiracy to restrain or monopolize trade and commerce in the United States. There is no evidence of current application of the 'cartel's' restraints to importations into, or sales in, the United States. Nor is there evidence that the Swiss watchmaking industry, or any of its elements, have monopolized or are presently conspiring or otherwise attempting to monopolize United States trade and commerce in watches, watch movements or watch parts. As a consequence, no basis exists for a recommendation by the Commission that the President, pursuant to Section 337, order the exclusion of articles from entry into the United States." The Commission's finding was unanimous.

Concerning the Court's decision in the antitrust case, the Commission observed specifically that "the conditions found by the Commission currently to exist differ materially from those determined by the Court to have prevailed in the past." As indicative of the changed situation, the Commission pointed to "the steps certain of the respondents in this investigation have taken at the instance of the Court to remove restraints on U.S. trade and commerce from their agreements, and the inhibitions placed upon them by the Court's final order."

In short, contrary to the views imputed to the Tariff Commission in Mr. Carmody's statement, the Commission's report explicitly rejected the claims of the domestic producers that U.S. antitrust laws are being violated by the Swiss watch industry, and accordingly the petition of the domestic manufacturers for relief under Section 337 of the 1930 Trade Act was unanimously denied.

2. Mr. Carmody's discussion of the role of the domestic watch manufacturers in production of defense items is similarly misleading. Mr. Carmody failed even to mention the fact that the domestic watch industry's national security argument was rejected by the Office of Emergency Planning following a thorough investigation instituted in April 1965 at the request of the President. (The same conclusion, incidentally, was reached following an earlier investigation by the Office of Defense Mobilization begun in 1955 and completed in 1958.)

Governor Farris Bryant, the Director of the O.E.P., wrote the President on November 14, 1966: "I have concluded that watches, watch movements, and watch parts are not being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. I have also concluded, based on the studies and judgments of the interested defense agencies, that the domestic watch manufacturers will be likely to continue production of defense materials for the foreseeable future, that the non-horological industry now has and will continue to have a role in the production of essential military timing devices, and that horological-type defense items will continue to be available from one source or another without regard to the level of imports of watches, movements and parts."

Mr. Carmody did refer, however, to the report submitted to O.E.P. by Secretary of Defense Robert McNamara. He conveyed the impression that the Defense Department agreed with the claims of the domestic producers. Mr. Carmody quoted Secretary McNamara out of context, however. In point of fact, the Defense Department reached a conclusion precisely opposite to Mr. Carmody's.

Immediately following the statements quoted by Mr. Carmody, Secretary McNamara went on to say:

"Termination of domestic watch production, in whole or in part, if it occurs at all, will not take place at a given moment in time but rather over a period of time. During this period the Defense Department can make plans for dealing with the developing situation. The Department considers it unlikely that all domestic production of watch movements would cease.

"Defense requirements, while an uneven source of sales volume for the watch companies, have nevertheless been a continuing source. These requirements will

continue for the foreseeable future and should constitute an important source of volume for the watch companies of particular interest to them should domestic production of watches decline.

"In the interest of preserving both a quick reaction capability and a mobilization base, the Defense Department can under Exception 16 to the Armed Services Procurement Regulations confine contract awards for horological type items to watch companies or other companies capable of making the needed items.

"The watch industry is currently up to capacity in military production which necessitated a continuing introduction by the Department of non-watch companies as producers of these items. Companies outside of the watch industry are a growing source of capability for the horological-type items produced by the watch industry and are currently able to meet the peak mobilization requirements for safety and arming devices. As a result of the experience these companies are gaining in the current procurement program to meet Vietnam needs, their capability for making the more difficult timing devices used in fuzes and other ordnance items is increasing substantially, there is a basis for believing that they would be able to meet peak mobilization requirements for mechanical timing devices as well as safety and arming devices.

"If necessary, the Government could establish an in-house capability for making critical components in the event that circumstances disclose that they cannot be obtained from either the watch or non-watch companies. The Department does not believe, however, that such an alternative is likely to become necessary in view of the broad capability of American industry.

"Over the long run the current dependence upon mechanical timing devices for rockets, missiles and ammunition in general may be reduced if non-mechanical devices based on chemical or electronic techniques prove to be feasible.

"In the area of research and development, the Department's principal use of the industry has been in the developmental area, particularly in production engineering. Fuze design philosophy, conception, engineering design and other phases of invention are ordinarily done in the Department's own arsenals and laboratories. Although technical know-how and equipment is, to a minor degree, available in-house for prototype production, it is customary to use private industry for this work. The watch industry relies on its production resources to support its capabilities in developmental work. While these companies have contended that loss of production facilities would result in an impairment of developmental resources, the continued requirement for a defense production base should prevent any diminution in these capabilities in the foreseeable future.

"In the light of the above, the Department cannot assert that the continued importation of watch movements will threaten to impair the national security, because action will be taken to assure a source of production with or outside the watch industry."

It is worth noting also that the O.E.P. report expressed substantial doubt that watch production and defense production are interdependent, as claimed. Governor Bryant observed that U.S. Time's own non-watch capabilities "are of such a nature and size as to be largely self-sustaining." In other words, it was O.E.P.'s judgment that U.S. Time's own defense production was largely unrelated to watch production. Similar observations about the separability of defense production and watch production were made with respect to General Time and Ingraham. Attached for the Committee's files is a copy of the entire O.E.P. report.

3. Mr. Carmody notes that several U.S. companies have discontinued domestic watch production during the past 15 years, but he neglects to mention that competition from U.S. Time, not imports, was the principal factor in the decision of most of these companies to abandon domestic production. U.S. Time's rise to dominance in the watch market came at the expense of many other firms, just as General Motors' rapid growth was accompanied by the failure of many of its competitors. The analogy to the automobile industry is carried through in the sales and profits performance of the three domestic wrist watch producers. As I testified, in spite of the restoration of the pre-1954 watch tariff rates, domestic watch production is at all-time high; the sales of the domestic producers are at an all-time high; the profits of the domestic producers are at an all-time high. These are the incontestable facts which rebut Mr. Carmody's testimony.

We would be grateful if you would include this letter in the record of the June 25 hearings.

Very truly yours,

BERTRAM LOWE.

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF EMERGENCY PLANNING,
Washington, D.C., November 14, 1966.

MEMORANDUM FOR THE PRESIDENT

INTRODUCTION

In April 1965 the Director of the Office of Emergency Planning, at your request, ordered an investigation under Section 232 of the Trade Expansion Act of 1962 to determine whether or not watches, movements and parts are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

Notice of the investigation was published in the Federal Register on April 8, 1965. A press release of the same date announcing the investigation invited all interested parties and organizations to submit their comments and views within the time prescribed by OEP Regulation 4.

Initial briefs, statements and rebuttal material were filed for the record of this investigation by the Bulova Watch Company, Hamilton Watch Company, Elgin National Watch Company and General Time Corporation on behalf of the domestic watch manufacturers, and by the American Watch Association for the U.S. watch importers.

Two other domestic watch manufacturers, the U.S. Time Corporation and the Ingraham Company, did not submit their views for the record of this investigation.

The import products encompassed in the investigation included watches and watch movements of jeweled and pin-lever construction and watch parts.

The domestic watch industry

The domestic watch industry consists of the manufacturing segment producing watches and watch movements of both jeweled and pin-lever construction, and of some 200 firms which import movements and assemble watches for sale in the United States and world markets.

The manufacturing segment consists of six companies. Of these, Bulova, Elgin, and Hamilton produce mainly jeweled-lever movements, and General Time, U.S. Time, and Ingraham produce pin-lever movements. Since 1961 U.S. Time had also been producing watches incorporating a 21 jeweled-lever movement differing somewhat from a conventional jeweled-lever movement. The pin-lever movements produced by U.S. Time are assembled domestically from an admixture of imported and domestic parts.

General Time and Ingraham, at present, produce only pin-lever pocket watches and clocks. Elgin's production is now limited to ladies jeweled-lever wrist watches.

Currently, Bulova and Hamilton also produce watch movements powered by miniature electric cells, and U.S. Time is marketing a watch incorporating an imported movement powered by an electric cell.

All of the domestic watch manufacturing companies, with the exception of Elgin, are engaged in varying degrees, in the production of components utilized in military ordnance, missile and space programs. By May 1965, Elgin had completed or discontinued work on all Government contracts and had sold nearly all of the machinery and equipment used in such production.

U.S. consumption, production, and imports

Apparent U.S. consumption of watches incorporating both jeweled and pin-lever movements has increased substantially during the past decade, reaching an annual average of over 26 million units in 1962-64, as compared with some 16 million in 1954. The 1965 consumption reached an all-time high of over 34 million units, an increase of some 25 percent over 1964. Consumption figures are understated by watches brought in by tourists or smuggled into the U.S. custom territory. Of the 1965 consumption total, some 18 million units were sold by the six domestic companies, and some 16 million by the more-than-200 firms in the importer-assembler segment of the industry. The Tariff Commission in a report to the Senate Finance Committee estimates that consumption during 1966 will reach 42,000,000, up some 22 percent from 1965.

The increase in quantity consumed since the beginning of the last decade was almost entirely of watches incorporating pin-lever movements. However, since 1961 there was a significant upward trend in the consumption of jeweled-

lever watches, particularly in the lower price ranges imported from abroad and the U.S. Virgin Islands.

U.S. production of all movements increased from 7.4 million in 1954 to about 13.7 million in 1965. The trend, however, of U.S. production of jeweled-lever movements declined from 1.7 million units in 1954 to 1.3 million in 1965. During the past decade domestic jeweled-lever production has tended to become concentrated on over-17-jewel movements. The demand for less expensive watches has been met by imports from the companies' overseas facilities or other sources. The over-17-jewel movements have never accounted for a significant proportion of the imports, apparently because the high import duty in effect on such movements substantially precludes import competition. In recent years two of the major jeweled-lever producers, Hamilton and Bulova, have been concentrating on developing the production and marketing of electronic and electric watch movements for which no competitive imported product is being marketed in the U.S. to any substantial degree. Their production and sales of movements of this type are still a minor portion of their production and sales of conventional type movements.

The aggregate imports in the period 1954-1964 (including shipments from the Virgin Islands which began in 1959) did not show any appreciable upward or downward trend, accounting for an average of about 55 percent annually of apparent domestic consumption. In 1965 the ratio was about 60 percent.

The major companies in the domestic watch manufacturing industry have in recent years acquired or expanded facilities abroad and in the Virgin Islands for producing movements. Bulova, Hamilton and Elgin, which also own or control a number of foreign plants in Switzerland or Japan, have in recent years accounted almost wholly for the increase in U.S. imports of jeweled-lever movements. Each of these companies imports watch movements in quantities exceeding several times its domestic production. In 1964 these three companies accounted for about 46 percent of the total imports.

U.S. Time and its affiliates operate foreign plants in England, France, West Germany, Scotland, Puerto Rico, Canada and Hong Kong. Its domestic output during the past decade increased very substantially and now accounts for practically the entire domestic production of pin-lever watches.

General Time in addition to its domestic plants owns or controls a number of foreign subsidiaries. The Ingraham Company has a fabricating and an assembly plant in the United States and through a subsidiary operates a pocket watch assembly plant in Canada.

While some parts incorporated in domestically produced movements are imported, such imports are not significant except for U.S. Time. The latter has been importing since 1955 an increasing share of parts for use in the assembly of its domestically produced movements. Some of the other jeweled-lever producers have been importing from time to time some parts for their domestic production of movements. All domestic producers are importing jewel bearings.

Since 1959, the Virgin Islands became an important source for shipments to the United States of 17-jewel movements. The movements are assembled from foreign-made parts or subassemblies imported into the Islands at a very low rate of duty. The assembled movements or complete watches are shipped to the United States duty-free if they do not contain foreign materials having a landed cost of more than 50% of the appraised value of the movements. The 1965 shipments from the Islands were almost three times the number of jeweled-lever movements produced in the U.S. during that year. In 1966, sixteen companies were assembling watches in the Islands. Five of the plants are owned by Bulova, Elgin, Hamilton, General Time and U.S. Time, and at least five of the other ten plants are owned by major U.S. watch importers. In August 1965, the Government of the Virgin Islands instituted a quota system through the imposition of a production tax of \$2.50 on each watch movement manufactured in the Islands for shipment to the United States in excess of a stipulated quantity. Beginning April 1, 1966, this tax applies to each movement in excess of annual quantity equal to one-ninth of the U.S. consumption of watch movements. In 1966 the Virgin Islands District Court invalidated the methods used for enforcing this quota.

Late in 1965 a watch movement assembly plant was established in Guam. Duty-free shipments from that plant to the U.S. customs territory began in November 1965.

In October, this year, Congress passed legislation limiting shipments from U.S. insular possessions to $\frac{1}{16}$ th of the total U.S. watch consumption— $\frac{7}{8}$ ths to

be allocated to the Virgin Islands, while the remaining $\frac{1}{8}$ to be divided in a two-to-one ratio between Guam and American Samoa. On the basis of estimates for 1966, the Virgin Islands will be allowed to ship approximately 4.1 million units in 1967, Guam about 400,000, and American Samoa about 200,000.

Sales, income, and employment

Total sales of all products of the six watch companies have been steadily increasing during the last five years.

The following is a summary of available data concerning total sales of all products and net income of domestic watch manufacturers.

BULOVA

[In millions of dollars]

	Fiscal year ending Mar. 31—				
	1966	1965	1964	1963	1962
Net sales.....	99.8	84.2	73.0	63.3	62.8
Net income.....	3.2	2.8	2.4	1.5	1.3

Sales and net income for the quarter ended June 30, 1966 were \$24,702,178 and \$629,000, against \$18,838,034 and \$521,900, respectively, a year earlier.

HAMILTON

[In millions of dollars]

	Fiscal year ending Jan. 31—				
	1966	1965	1964	1963	1962
Net sales.....	44.8	38.1	37.1	37.6	35.8
Net income.....	2.0	1.1	.6	.7	.025

During the first six months ended July 31, 1966, sales were reported as \$24.9 million, an increase of nearly 40 percent over the same period a year ago.

GENERAL TIME

[In millions of dollars]

	Fiscal year ending Dec. 31—				
	1965	1964	1963	1962	1961
Net sales.....	91.6	79.9	73.6	69.2	65.6
Net income.....	2.5	1.9	1.4	1.1	.5

For the quarter ended March 31, 1966 sales and net income were substantially ahead of the corresponding quarter a year ago.

U.S. TIME¹

[In million dollars]

	Fiscal year ending Dec. 31—				
	1964	1963	1962	1961	1960
Net sales.....	90.9	83.5	74.5	71.2	69.8
Net income.....	5.4	4.0	3.2	2.9	1.7

¹ The figures were obtained from investment reporting services. U.S. Time is a privately held corporation and is not required to report its earnings publicly.

Newsweek magazine on March 16, 1966 quoted the company's Chairman and President as having reported that sales topped \$100 million during 1965. No profit figures for that year were cited.

ELGIN

(In millions of dollars)

	Fiscal year ending Feb. 28 (or 29)				
	1966	1965	1964	1963	1962
Net sales.....	42.4	54.8	66.2	46.3	40.4
Net income (loss).....	.6	(8.4)	(2.4)	1.1	1.4

Elgin's net losses in the fiscal years ended February 28 (or 29) 1964 and 1965 were said to have been associated in large part with substantial "cost overruns" in prior years on defense contracts. Net decrease in sales during fiscal 1966 reflected the company's elimination of all its Government business. Consumer sales increased both in fiscal 1965 and 1966 as defense sales declined.

INGRAHAM

The Ingraham Company is a privately-owned firm and does not publish any financial operating statements. However, information from reliable sources indicates that sales in 1964 were more than two and one-half times the 1960 sales, primarily as a result of defense work. The Company's defense backlog on the last day of 1965 was more than its total sales for 1964.

Employment

The Department of Labor has recently surveyed the employment of the four domestic wrist watch producers (Bulova, Hamilton, Elgin and U.S. Time). The total employed in 1965 by the four companies on all products was 9,880. The figure includes clerical, managerial, technical, and professional workers.

In general, there was no discernible trend during the past decade in the employment of production workers on domestic watch movements. A decline of workers in the jeweled-lever segment during the period was partially offset by a gain in the pin-lever segment, and since 1958 the pin-lever segment has employed more workers than the jeweled-lever segment.

THE INVESTIGATION

Following the formal announcement of the investigation on April 8, 1965, this Office undertook an exhaustive study of the domestic watch industry's role in national defense. As required by the statute, the study employed the resources of a number of Government agencies having responsibilities or interest in the matter under review. The agencies collaborating in the study, the Departments of Defense, Commerce, Labor, the Atomic Energy Commission, and the National Aeronautics and Space Administration made material available to this Office as to pertinent aspects of this case which fell within their respective responsibilities. In addition, advice was sought and received from the Department of State and the Council of Economic Advisers. The views of these agencies in the matter follow.

THE DEPARTMENT OF COMMERCE

The Commerce report on this investigation dealt primarily with the question as to whether there is enough machine capacity in the domestic watch industry to meet total mobilization requirements for (1) military components planned for the industry and (2) watches for essential civilian and war-supporting requirements. The report did not address itself specifically to the overall problem of the impact on the national security of imports of watches.

As part of its investigation, the Department undertook a survey of the watch industry to obtain information on the nature and variety of production equipment, the character of current operations, usage of imported parts and movements, production records and capacity potentials. Total mobilization requirements were then analyzed for critical parts which in turn were related to machine time and machine availability. Based on this information and informal

consultations with industry, an evaluation of the supply-requirements situation was made.

In brief, the conclusions drawn were that:

1. Under present planning assumptions estimated mobilization requirements for horological items that could be placed on the watch industry could not be met with currently available equipment. Thus, the report states, a precarious situation would exist in the event of a conventional war.

2. Watchmaking equipment in the watch industry and elsewhere is inadequate at this time to meet demand stemming from the Vietnam operations, and without substantial imports of parts, production of fuzes and timing devices would fall short of current requirements.

3. Present planning assumptions raise a question regarding reliance on imports in a conventional war and such uncertainty of supply of foreign-made parts could affect the national security.

The report concludes that the prospective deficit in production equipment in a mobilization period is a serious matter and recommends measures which could strengthen the defense posture, such as adopting programs to develop additional capacity, stockpiling of watchmaking equipment and maintaining a watchmaking complex capable of quick response to defense orders.

DEPARTMENT OF DEFENSE

The Department conducted a comprehensive study to determine the extent to which overall military requirements for horological-type products could be met by watch and non-watch producers.

In the course of the study, the Department solicited and obtained information and comments from its component elements which have a significant interest in the matter, and assembled data on the capabilities of the horological and non-horological producers for meeting foreseeable defense needs.

The overall military requirements for horological-type products considered in the study are based on the needs for meeting ammunition and other inventory objectives for presently planned forces, amended wherever possible to reflect Vietnam demands; plus monthly production rates needed to meet anticipated requirements under mobilization conditions. The study encompassed jeweled and non-jeweled watches, clocks and chronometers, timing mechanisms for ammunition, guided missiles, fire control equipment, photographic equipment, miscellaneous timing mechanisms, and safety and arming devices for missiles, rockets, and bombs.

An evaluation of the study led the Department to the following conclusions:

The United States watch industry has been an important and responsive source of horological-type items used in rockets, missiles and ammunition as well as a supplier of watches, chronometers, and other items.

Despite the protection of the "escape clause" rates, domestic production of jeweled watches declined, and further decline may be expected whether or not the higher rates are extended beyond their terminal date of October 1967. The Department therefore must anticipate the possibility of a further production retrenchment, or even complete termination of production, and has considered alternatives available to it should these possibilities occur.

Termination of domestic watch production, in whole or in part, if it occurs at all, will not take place at a given moment in time but rather over a period of time. During this period the Defense Department can make plans for dealing with the developing situation. The Department considers it unlikely that all domestic production of watch movements would cease.

Defense requirements, while an uneven source of sales volume for the watch companies, have nevertheless been a continuing source. These requirements will continue for the foreseeable future and should constitute an important source of volume for the watch companies of particular interest to them should domestic production of watches decline.

In the interest of preserving both a quick reaction capability and a mobilization base, the Defense Department can under Exception 16 to the Armed Services Procurement Regulation confine contract awards for horological-type items to watch companies or other companies capable of making the needed items.

The watch industry is currently up to capacity in military production which necessitated a continuing introduction by the Department of non-watch companies as producers of these items. Companies outside of the watch industry are a growing source of capability for the horological-type items produced by the watch industry and are currently able to meet the peak mobilization requirements for safety and arming devices. As a result of the experience these com-

panies are gaining in the current procurement program to meet Vietnam needs, their capability for making the more difficult timing devices used in fuzes and other ordnance items is increasing substantially. Accordingly, there is a basis for believing that they would be able to meet peak mobilization requirements for mechanical timing devices as well as safety and arming devices.

If necessary, the Government could establish an in-house capability for making critical components in the event that circumstances disclose that they cannot be obtained from either the watch or non-watch companies. The Department does not believe, however, that such an alternative is likely to become necessary in view of the broad capability of American industry.

Over the long run the current dependence upon mechanical timing devices for rockets, missiles and ammunition in general may be reduced if non-mechanical devices based on chemical or electronic techniques prove to be feasible.

In the area of research and development, the Department's principal use of the industry has been in the developmental area, particularly in production engineering. Fuze design philosophy, conception, engineering design and other phases of invention are ordinarily done in the Department's own arsenals and laboratories. Although technical know-how and equipment is, to a minor degree, available in-house for prototype production, it is customary to use private industry for this work. The watch industry relies on its production resources to support its capabilities in developmental work. While these companies have contended that loss of production facilities would result in an impairment of developmental resources, the continued requirement for a defense production base should prevent any diminution in these capabilities in the foreseeable future.

In the light of the above, the Department cannot assert that the continued importation of watch movements will threaten to impair the national security, because action will be taken to assure a source of production within or outside the watch industry.

At the request of this Office, the Department reviewed the report on this investigation submitted by the Department of Commerce. On September 28, 1966, Secretary McNamara advised as follows:

The Department finds the report informative and helpful as a document to be used in maintaining continuing surveillance over the situation and for planning to insure that both current and mobilization requirements for timing devices will be met.

However, in the Department's opinion, there is nothing in the report to cause it to alter or modify the conclusions stated in the previous DOD report to this Office.

The Department further advises that it has made a detailed check of its inventory of equipment of the type specified in the Commerce report. The results show:

1. Sufficient DOD equipment is available to meet the alleged shortages mentioned in the Commerce report. The equipment is in very good condition and a substantial portion of it is unused.

2. While the available equipment may not in all instances be the most modern type, it is adequate and fully capable of meeting defense production requirements. Therefore, there is no need to be dependent upon imports to satisfy these requirements in a mobilization period.

3. Should it ever be considered necessary, replacement of part of this equipment is possible by importing Swiss-type machines which are available within reasonable price levels and lead times. Furthermore, some American firms are interested in providing this type of equipment, if orders of sufficient magnitude are involved. Lead time of such domestic equipment is about two years.

4. As a further consideration affecting equipment requirements, an intensive product improvement program is now under way which includes the redesign of fuzes to allow such parts as gears to be manufactured by stamping and die casting the gear, pinion and pin as one piece, thus eliminating more costly and time-consuming machinery processes.

The Department which has been continuously exploring potential replacements for mechanical timers now advises that since its previous report to this Office, many advances in integrated circuit techniques have been achieved by industry which bring electronic timers closer to realization.

THE ATOMIC ENERGY COMMISSION

The AEC advised this Office that national security implications pertinent to the investigation were found only in the ordnance segment of AEC's nuclear weapons program, and that certain horological skills and experiences presently found only in the jeweled-lever segment of the domestic watch industry "have

been and are expected to continue to be of considerable importance to AEC's weapons program." The AEC concluded however that:

"Though the jeweled lever segment of the domestic watch industry has played an important role in AEC's past programs and its availability would be desirable in the future, it cannot be concluded that it is essential. If a domestic watch industry were not available for future AEC work, the AEC programs would survive by the pursuit of new timing concepts, reverting to old ones with perhaps some compromises, or developing a jeweled detached lever capability in a precision company outside the horological industry. The latter alternative is estimated as a three-year program costing several million dollars."

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

In reporting on this investigation, NASA advised that a survey of its Field Centers indicates that although the watch industry has supplied items for the space program, the major portion of timing devices used by NASA for all applications is essentially of the electronic rather than the mechanical type, furnished by firms other than the watch industry. In some cases, however, the watch industry may be a subcontractor for some part of the subsystem which contains the timing devices.

DEPARTMENT OF LABOR

In an investigation under Section 232 of the Trade Expansion Act of 1962, the Director of the Office of Emergency Planning must, in the light of the requirements of national security, give consideration, among others, to "... existing and anticipated availabilities of the human resources ... essential to the national defense ..."

Accordingly, we requested the Department of Labor to furnish us information on the manpower aspects of the watch industry.

To meet this request, the Department initiated manpower evaluation studies based upon information obtained in field surveys of jeweled-lever and pin-lever wrist watch firms and of 36 non-horological firms producing related products. A job analysis study was made of 18 occupational skills agreed upon by representatives of the domestic watch industry as being critical to their operations. These key horological jobs were then compared with similar jobs found in the non-horological companies in terms of training times required to reach proficiency, dimensions of work pieces produced and assembled, and tolerances required.

The following findings from the Department's study are considered relevant to the question at issue:

Only the jeweled-lever watch industry now has the combination of skills and procedures to produce precision jeweled-lever watch movements.

Management in many related product factories estimated that it would require about two years to establish from scratch a manufacturing capability to produce precision watch movements on a mass basis.

Only three of the eighteen key skilled occupations in the industry did not have approximate counterparts in other types of manufacturing. The three occupations are only needed to produce electric watches.

It is estimated that combined jeweled watch and pin-lever wrist watch industry would need 3,700 workers to manufacture products needed by the Department of Defense in a peak mobilization period. This represents about three-eighths of the 9,880 employed by the four wrist watch companies in 1965.

About 200 workers, approximately one-third of whom would be technical and highly skilled workers, would be needed to manufacture precision time keeping devices to meet military requirements under mobilization conditions. The other 3,500 would be working on a variety of defense-associated timing devices and related products which do not require as much of the highly skilled work essential in the production of precision watches and chronometers.

Few of the highly skilled specialized workers now engaged in precision watch movement production would be needed in the manufacture of defense goods provided by this industry.

COUNCIL OF ECONOMIC ADVISERS

In his letter to this Office, Mr. Gardner Ackley, Chairman of the Council of Economic Advisers, discussing the statutory requirement in Section 232 that "the Director and the President shall further recognize the close relation of the economic welfare of the Nation to our national security, ..." concluded that there is "no evidence to suggest that imports of watches, watch movements, and parts are currently such as to threaten the welfare of the domestic watch

manufacturing industry, much less the health of the economy as a whole." Mr. Ackley continues with the statement that viewing the question on this narrow ground alone, he does not conclude that watch imports are threatening to impair the national security.

FOREIGN POLICY CONSIDERATIONS

United States foreign policy interests and objectives were considered in this case. The comments of the Department of State, whose advice was sought in this investigation, were directed broadly toward an evaluation of the importance of watch imports to our foreign economic relations and the relevance of such relations to the overall national security and well being of the American people as a whole.

SUMMARY AND CONCLUSIONS

During 1956 and 1957 the Office of Defense Mobilization (ODM), a predecessor agency of OEP, conducted an exhaustive investigation, under the "national security clause" then embodied in Section 7 of the Trade Agreements Extension Act of 1955, to determine the effect on the national security of imports of horological products. The investigation led to a finding in February 1958 that the level of imports of such products did not threaten to impair the national security.

The present investigation which lasted nearly a year and a half, while parallel in scope to the Office of Defense Mobilization investigation, was conducted as a new and independent examination of the problem in light of many new factors that have arisen since 1958, such as changes in military concepts, new weapon technology, and changed military requirements.

The investigation was carried out in accordance with the criteria contained in the statute and OEP Regulation 4, giving consideration to the overall production facilities and capabilities available within and outside the domestic watch industry, in terms of the human resources, equipment and materials which are necessary to meet present and projected defense requirements for horological-type items, and giving recognition to certain other economic factors related to the national security.

Without question, imports of watch movements have in the past decade constituted a substantial portion of the total domestic watch consumption. These imports have had an economic impact on the domestic watch manufacturing industry as a whole and have contributed to some extent to the demise of a few watch manufacturing firms and to the curtailment of the activities of others in the field. On the other hand, nearly all the remaining watch manufacturing companies seem to have made far-reaching and fundamental adjustments to the economic environment of import competition, and were able at the same time not only to maintain but actually *increase* their related defense production capability.

We have considered carefully the statements by spokesmen for the industry that imports threaten the survival of unique watchmaking, managerial, and production-line skills needed in the manufacture of military end products. We do not believe that there would be any significant loss of skills and facilities important to national defense during emergency periods.

First, if the watch industry should find it advantageous from an economic standpoint to turn more and more to imports and gradually curtail or even phase out domestic watch production, it does not appear that it would abandon its defense production activities so long as the military demand for their products continues. In light of current military procurement plans involving an expanded industrial production base to meet ammunition and other inventory objectives, the defense capabilities of the watch industry should be in steady demand for a number of years to come.

Second, even if some of the watch companies should decide to discontinue their defense production along with that of watch manufacturing, there is reason to expect that the skilled personnel, production facilities and equipment now being utilized in production of defense items would be absorbed by or continued as separate entities of other watch or non-watch companies. This has happened in the not too distant past. For example, Waltham, Gruen, and Elgin, upon complete or partial discontinuance of watch manufacturing sold their defense production facilities to other companies engaged in the supply of defense or industrial products.

Third, an increasing number of non-watch companies are showing a capability to produce components requiring equally close or closer tolerances and to develop complex weapons systems employing such components.

Statements were made by representatives of the jeweled-lever watch industry that there is an interdependence between watch production and defense production, and that the latter could not be sustained economically unless watch production at adequate levels is maintained. The facts, however, as to three of the five domestic watch manufacturers involved in defense production, do not appear to support this contention. Two of these companies, General Time and Ingraham, produce, in addition to clocks, only pocket watches of pin-lever construction which are not significantly affected by import competition, if at all. Notwithstanding this, these companies are very substantial producers of sophisticated military components and their defense sales and defense backlogs have been increasing at a rapid rate in the past several years. In the case of the third company, the United States Time Corporation—the largest U.S. producer and assembler of pin-lever wrist watches—the non-watch capabilities of that firm are of such a nature and size as to be largely self-sustaining. As in the case of General Time and Ingraham, the defense sales of U.S. Time account for a significant proportion of its total sales, and the current defense backlog is the highest in the firm's history.

The domestic watch industry with its long tradition of experiences in micro-miniature precision skills required for defense production is an important segment of our mobilization base. The Department of Defense and the Atomic Energy Commission are currently relying and will continue to rely for some years to come on the watch industry to meet a good portion of the current and projected requirements for certain types of timing devices, safety and arming devices, and timepieces. In many instances the industry has excelled in meeting the need for both speed and quality in the procurement of horological-type defense items.

However, the basic issue in this investigation is not a determination as to whether or not the watch industry's facilities and skills are important to our mobilization base. Virtually every industry in this country has a role to play in our defense effort whether in peace or war. In times of a major emergency a maximum logistic effort to save the nation will require the conversion and use of all the machinery, skills and experience *wherever* found throughout the economy.

We must ascertain whether the quantities or circumstances of continued imports of watches, movements and parts threaten to impair the national security by impairing, or inhibiting the creation or maintenance of, essential productive capacity, specialized skills or other factors important in times of a national emergency. Stated differently, (a) are watch imports having such a debilitating effect on the domestic watchmaking operations as to impair the ability to meet current and projected defense requirements, and (b) will an impairment of such ability in turn impair or threaten to impair our national security?

In considering existing capability outside the watch industry, the issue with which this investigation is primarily concerned is not whether non-horological firms can produce *watches* in an emergency, but whether such firms possess the skills and facilities to produce the same types of components for military hardware as the watch companies. We therefore considered carefully the existing capability in the total U.S. micro-miniature precision industry. The conclusion arrived at, supported by studies made by interested defense agencies, is that even though the watch industry has valuable capacity and skills which are being and will continue to be utilized in the defense effort, its abilities cannot be considered unique outside the watchmaking field. The non-watch companies, even though they encountered in many instances production difficulties with certain horological-type defense items, are mastering the problems. If necessary, the defense agencies can use the so-called "mobilization base" exception to confine contract awards for horological-type items to particularly qualified non-watch companies needed to maintain a production base should the watch companies not be available.

As regards watches per se, accurate timepieces are important to the conduct of war and essential civilian operations.

Military requirements for watches in a mobilization period are but a small fraction of one percent of the amount currently consumed in the United States, and the defense agencies are able, by stockpiling, to meet military needs in the event they are cut off from fresh supplies.

With respect to essential civilian requirements, the estimate by the Department of Commerce was based largely on the experience of World War II, adjusted upward for such factors as increase in the U.S. population and the increased mechanization and urbanization of the economy. Civilian (including in-

dustrial) requirements for watches, as computed by Commerce, actually exceed the military requirements.

According to information obtained from both trade and Government sources, the number of jeweled-lever and pin-lever watches currently in the hands of the American public is estimated between 145 to 170 million units. This estimate is based on domestic consumption figures for the past 10 years and the average service life of the watches under normal maintenance conditions. In addition, the total inventory of watches at the retail level is estimated at 17.5 million watches at the end of 1965. Estimates of watches in the domestic producers and importer-assemblers inventories ran to some 6 million units, making a total inventory in 1965 of over 23 million units. Thus, there appears to be a pool of about 165 to 190 million watches in consumers' hands and inventories, most of them being of jeweled-lever construction. In addition, the number of clocks of all types in the hands of consumers and in inventories exceed the number of watches above referred to. This available supply of timepieces should be more than enough to meet all essential civilian needs even in a war lasting several years.

With respect to the repair and maintenance of watches in the hands of the public, the Department of Labor publication, "Occupational Outlook Handbook" 1966-1967 edition, states, among other things, that there are over 25,000 watchmakers in the United States outside of manufacturing facilities. A great number of these are employed in retail stores, only a few hundred being employed either by the domestic watch manufacturers or importer-assembler firms. In fact, about one-half of the total are self-employed. During World War II, most of these watchmakers continued in the retail establishments.

It is likely that during a major emergency most of the watchmaking operations would be curtailed to an irreducible minimum and the facilities utilized to fulfill higher priority needs. According to the study by the Department of Labor, referred to in this report, only about 200 workers of the present nearly 10,000 workers employed in the four major watch companies would be needed to manufacture precision time keeping devices to meet defense requirements in a mobilization period. Of these 200 workers, approximately only one-third would be technical and highly skilled workers.

The level of imports dealt with in "national security" investigations is related to quantities which have been and are entering this country under existing rather than prospective tariffs. However, we have taken account of the fact that the higher "escape clause" rates of duties on watches imposed in 1954 are currently in the process of review. Our findings in this national security investigation took into consideration the alternatives considered by the defense agencies, referred to earlier in this report, should further changes in domestic watch production take place as a result of termination of the duty protection now enjoyed by the industry.

I have made a careful analysis of the comprehensive record assembled in this case and of the thorough and exhaustive studies by the Departments of Defense and Commerce, the Atomic Energy Commission and the other agencies collaborating in this investigation. There is ample evidence that the military production capability of the companies composing the domestic watch manufacturing industry has not only been *unimpaired* by substantial imports in the past decade but is currently at its maximum and is expanding. In this connection, we have taken note of the judgments of the defense agencies which rely on the watch industry for the supply of a significant portion of horological-type defense items that in the event any changes result in the impairment of this source, not now foreseen, timely action can be taken by them to provide a source of production within or outside the watch industry for meeting peacetime and mobilization requirements for horological-type defense products.

Accordingly, I have concluded that watches, watch movements, and watch parts are not being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. I have also concluded, based on the studies and judgments of the interested defense agencies, that the domestic watch manufacturers will be likely to continue production of defense materials for the foreseeable future, that the non-horological industry now has and will continue to have a role in the production of essential military timing devices, and that horological-type defense items will continue to be available from one source or another without regard to the level of imports of watches, movements, and parts.

FARRIS BRYANT, *Director.*

STATEMENT OF ANTONIO B. WON PAT, TERRITORY OF GUAM,
REPRESENTATIVE IN WASHINGTON, D.C.

Mr. Chairman and members of the Committee, I am Antonio B. Won Pat, the elected Representative of the people of Guam in our Nation's Capital, and I am presenting this statement on behalf of equity, fairness and justice for the 100,000 American citizens of Guam with respect to the division of future increases in the importation into the mainland of watches assembled in the insular possessions of the United States. I might point out that as the incumbent of the only territory-wide elective office in Guam, I in my official capacity am the authorized spokesman in Washington for the Guamanian people, all of whom, as you know, are American citizens.

This Committee is well aware that Public Law 89-805 limits duty-free imports of watches and watch movements containing foreign components, from the insular possessions. These insular possessions consist of Guam, the Virgin Islands and American Samoa, although the status of the latter area has never been clearly defined by the Congress. Under PL 89-805, which grew out of legislation sponsored in this Committee, one-ninth of the total domestic consumption for the previous year of watches and watch movements may enter the mainland from all three insular areas. The formula set forth in the Act gives the Virgin Islands seven-eighths of this one-ninth quota, with the remaining one-eighth divided, two-thirds of it for Guam and one-third for American Samoa.

At the time of enactment of PL 85-805 the American citizens of Guam were at a loss to understand this highly inequitable, highly unfair formula. The passage of time since enactment has not made its logic any clearer nor its justice any more apparent.

The effects of this inequitable formula for 1968 are shown, painfully for Guam, by the recent determination of the United States Tariff Commission, published in the Federal Register for March 27, 1968, as Document 68-3644. Under this determination, during 1968, the Virgin Islands may enter 4,208,750 units, Guam only 400,673 units and American Samoa 200,577 units.

That is, the Virgin Islands are entitled to almost 10 times the number of units to which Guam is entitled!

Yet by every reasonable standard, we merit treatment at least equal to that accorded the Virgin Islands: Under Acts of Congress, both the Virgin Islands and Guam are unincorporated territories of the United States; and the citizens of each are American citizens. Our population is substantially greater than that of the Virgin Islands—nearly twice, as a matter of fact. The economy of the Virgin Islands was not destroyed by enemy capture, occupation and subsequent liberation as was that of Guam, which is the only area now under the American flag to suffer such devastation.

In terms of specific economic effect, prior to the imposition of this formula, 400 Guamanians were employed in eight separate watch assembly plants on Guam. During the calendar year 1966, they produced over one million watches. However, with the imposition of the highly inequitable quota, 370 of our people lost their means of livelihood, five of the plants have been forced to close entirely, and quarterly salaries and withholding taxes associated with our watch industry have fallen from \$219,150.40 and \$35,411.21 to \$85,516.02 and \$12,190.05, respectively.

However inequitable and unfair this formula is as between the Virgin Islands and Guam, we are not asking you to change it.

What we are asking is a fair division of future unit increases under the quota you have established. As the consumption on the mainland of America grows, so will the number of units coming under the one-ninth limitation increase. What the people of Guam now propose and urge is that future increases over the 1967 quota level be divided equally among the three areas—Virgin Islands, Guam and American Samoa.

A draft of proposed legislation to accomplish this purpose previously was submitted last fall to Chairman Mills; in the Senate it has been introduced as S 3124. A copy of S 3124 is attached and made a part of my presentation.

Mr. Chairman and members of the Committee, I want to thank you for allowing the American citizens of Guam to present this petition to you, through

me, their elected representative, and to urge your prompt and favorable consideration.

[S. 3124, 90th Cong., second sess., introduced by Senator Metcalf on March 18, 1968]

A BILL To provide that annual increases in the quota of watches and watch movements which may be entered duty-free from the insular possessions shall be equally divided among the Virgin Islands, Guam, and American Samoa

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) headnote 6(b) of schedule 7, part 2, subpart E of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by adding at the end thereof the following new sentence: "If such total quantity for any calendar year after 1967 exceeds 4,693,000, then of such total quantity—

"(iv) not to exceed 4,106,375, plus $\frac{1}{3}$ of the number by which such total quantity exceeds 4,693,000, shall be the product of the Virgin Islands.

"(v) not to exceed 390,927, plus $\frac{1}{3}$ of the number by which such total quantity exceeds 4,693,000, shall be the product of Guam, and

"(vi) not to exceed 195,698, plus $\frac{1}{3}$ of the number by which such total quantity exceeds 4,693,000, shall be the product of American Samoa."

(b) The amendment made by subsection (a) shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after January 1, 1968.

HAMILTON WATCH COMPANY,
Lancaster, Pa., July 12, 1968.

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

DEAR MR. CHAIRMAN: As you know, few U.S. industries have been more deeply affected by or more actively interested in U.S. trade policies and their administration over the past thirty years than the producers of jeweled-lever watch movements. This experience has shown rather conclusively that it is not possible to produce watch movements in this country without a very substantial tariff to equalize the difference between foreign and domestic labor rates. It has also shown that such rates cannot be maintained, certainly not through administrative channels.

In 1950, when I first became active on the tariff problem for Hamilton Watch Company, there were seven companies making complete wrist-watch movements in the United States, three producers of non-jeweled or pin lever movements and four producers of jeweled-lever movements. Today there are only two companies which have the capability to produce complete movements in this country. The total domestic production of these two companies is quite limited, is substantially less than in 1950, and its continuation even at this level is problematical.

Four of the other five companies have ceased all U.S. production of wrist-watch movements (although two continue to make an inexpensive, large, pin lever pocket watch of the type which once was known as the \$1 watch). The fifth company, U.S. Time Corporation, has presented testimony to your Committee. It produces more watches than any other company in the world, but the greatest part of its production is from its plants in several foreign countries. It now makes only one-half of the parts for its U.S. production in the United States. Its more complicated operations, which require more labor, are centered elsewhere.

The President's reduction of tariffs on watch movements in January, 1967, by revocation of the escape clause rates established by President Eisenhower in 1954, has already resulted in the further decline of U.S. watch-movement production, and the full effects of his action will become more evident in the next few years. In March, 1965, before the President acted, the Tariff Commission had reported to him that the revocation of the escape clause rates would result in "idling of productive facilities and a decrease in employment in the manufacture of U.S. watch movements. . . ." That is precisely what has happened

and what will inevitably continue to happen to the industry under present circumstances.

As you know, all U.S. companies have long ago been forced to establish some plants abroad. We, ourselves, now have facilities in Germany and Switzerland. As it becomes necessary, the only two companies which make complete movements in the United States must make further shifts abroad and U.S. Time must move the remaining portion of its U.S. production.

This process, apparently, is what the witness for importers of watch movements referred to so euphoniously before your Committee as "a successful adjustment to import competition," or "taking advantage of international specialization." The witness' reference to increased sales and profits of the U.S. watch-movement producers, including Hamilton, is wholly misleading. I can tell you categorically that our sales of watches with domestic movements have declined, not increased, and that we are not profiting from the sale of such movements. Under present circumstances, we must look to imported movements or to wholly different products for the profits we report.

As we have said over the years, a shift to complete importation of watch movements is not necessarily injurious to our profits. It is easy to see that any company can generate more profit by making movements in Switzerland rather than in the United States because the Swiss wage rates are less than half the U.S. rates for the same skills. But transferring jobs abroad is not helpful to our employees, and the loss of watchmaking skills in America is not in the interest of our national security.

Subcommittees of the Senate Armed Services Committee reported in 1954 and again in 1964, that the industry was important to our national security because of its ability to shift its watchmaking skills to emergency production of precision timing devices for missiles, rockets, shells and other weapons. As a preliminary to the 1967 reduction of watch tariffs, the Secretary of Defense advised the Director of the Office of Emergency Planning that the watch industry was important, but refused to advise that any steps should be taken—specifically, the retention of the 1954 escape clause rates—in order to preserve the industry. I use the word "refused" advisedly because the Secretary acted contrary to the advice of the office of the Assistant Secretary for Installations and Logistics and that of the Government arsenals and laboratories directly responsible for procurement of precision mechanical timing devices. The Secretary's letter actually took the position that there was adequate capacity for precision timing devices in other less-skilled industries, although it was a known fact at the time that a shortage of U.S. capability existed even with the watch industry fully involved in the fuse program. At present, every one of the producers of one important new time fuse is a watch company. The Secretary's reversal of the staff recommendations based upon many months of study resulted from intervention of the office of the Assistant Secretary for International Security Affairs, which was activated by those who believe that reduction of U.S. tariffs is of paramount importance.

Based upon this, and many similar experiences which I will not take time to recount, it is our firm opinion that the present procedures for preservation of industries which are seriously injured economically and those whose loss is not in the national interest are wholly ineffective. The futility of escape clause procedures is demonstrated not only by the small number of escape clause actions taken, but even more clearly by the recent determined and systematic revocation of those few which had been taken. The domination of trade policy over national interests in preservation of an industrial base for emergency military procurement has been made clear to us by the experience I have just described. Those responsible for administration of the trade program seem firmly convinced that no consideration should stand in the way of tariff reduction. The safeguard procedures written into the Trade Expansion Act by the Congress are regarded not as applicable principles of administration but as unwise obstacles to development of free trade to be circumvented after appropriate lip service.

This attitude has now become so pervasive in the various Departments and Agencies, largely through a program of strategic placement of personnel totally indoctrinated in their free trade philosophy that there is no hope for a change of administrative policy. Any meaningful restraints or remedial action must be legislatively imposed.

Sincerely,

ARTHUR B. SINKLER,
Chairman of the Board.

The next witness is Mr. Robert Ward.

Mr. ULLMAN. Mr. Ward, I am particularly pleased to welcome you before the committee. Members of the committee have always enjoyed Oregon strawberries.

Would you please identify yourself for the record.

Are you appearing alone?

STATEMENT OF ROBERT E. WARD, ON BEHALF OF NORTHWEST CANNERS & FREEZERS ASSOCIATION, OREGON STRAWBERRY COUNCIL, AND CALIFORNIA STRAWBERRY ADVISORY BOARD

Mr. WARD. Yes.

Mr. ULLMAN. Very good.

I want the members of the committee to know that we in the Northwest produce the finest fruits and vegetables in the country, and certainly the finest strawberries. You, sir; represent an outstanding organization with a fine record of public service, and I particularly am pleased to see you here today.

You may proceed.

Mr. WARD. Thank you.

Representative Ullman, Mr. Chairman, and members of the committee, my name is Robert E. Ward. I am the assistant general manager of United Flav-R-Pac Growers, a grower-owned processing cooperative, with plants in Gresham, Newberg, and Salem, Oreg.

I am presenting this testimony in behalf of the California strawberry industry, including growers, processors, and shippers; Northwest Canners & Freezers Association, a trade association of fruit and vegetable processing companies located in Oregon, Washington, and Idaho; the Oregon Strawberry Council, representing the strawberry growers of the State of Oregon; and growers and packers in the States of Michigan and Tennessee.

Mr. Chairman, with your permission, I would like to read a few letters into the record, one from Michigan, and one from Tennessee.

Mr. ULLMAN. Will you proceed?

Mr. WARD. The letter from Michigan is from Mr. James Bryan, president of Smeltzer Orchard Co., who is also vice president of the National Association of Frozen Food Packers, and a member of that organization's legislative committee:

DEAR BOB: We appreciate your efforts on the Mexican strawberry bill regarding a 20-percent import quota. Michigan packers and strawberry growers are definitely behind this bill, as we have met with Senator Hart and Senator Griffin in connection with Mexican import quotas.

We are just beginning our 1968 pack with a substantially reduced acreage in Northwestern Michigan. We are receiving extremely competitive prices from imported strawberries in New York and Philadelphia markets.

To date we have been unable to obtain information as to the quality of the fruit.

Sincerely.

The other letter is from Winter Garden Freezer Co., Inc., in Bells, Tenn., from Mr. Clay Cosco, who is a member of the National Association of Frozen Fruit Packers Legislative Committee:

Dear Bob: We will support you in your attempts to enact a 20-percent import quota on Mexican strawberries. Please advise me concerning the date the com-

mittee presides. I will attempt to contact the appropriate legislators at the time of the hearing to gain their support.

Very truly yours.

These growers and packers represent approximately 95 percent of the national pack of frozen and canned strawberries.

In the three Pacific Coast States, where the largest percent of processed strawberries are handled, there are approximately 2,000 growers whose primary market is provided by processors.

You will note in table I that strawberries are grown commercially and are important to growers in 28 States.

This processing strawberry production represents approximately a \$35 million income to growers, and \$3.8 million to workers in processing plants. It is a significant part of both farm and processing diversification, which is already seasonal and marginal.

A major factor causing depression in these important industries is the increasingly large imports of frozen strawberries, principally from Mexico, and the potential for further growth in imports and disruption of domestic marketing.

U.S. strawberry growers and processors need your assistance in limiting excessive imports, if they are to continue in this business.

During the most recent 5-year period, average total disappearance was somewhat less than during the previous 5 years, which, when measured against the substantial increase in population, indicates a declining per capita consumption.

In the absence of market expansion potential, there is little or no room in the domestic market for a large volume of imports of this product, and any increase in such volume must be regarded as a replacement of domestic production, to the detriment of all segments of the domestic industry.

The U.S. grower overproduced strawberries in the period of 1956 to 1959, and then adjusted his planting to correspond with the market demand and a fair return.

The success of this self-help program of acreage reduction was short lived, due to the beginning of a rapidly expanding strawberry industry in Mexico. Imports from Mexico moved from 14.2 million pounds, or 5.3 percent of U.S. disappearance, in 1959, to a high of 82.8 million pounds, or 31.5 percent of U.S. disappearance, in 1966.

The 1966 imports of 82.8 million pounds was a 60-percent increase over the previous year. This has upset a balance needed by U.S. growers to keep producing strawberries economically.

The 82.8 million pounds of strawberry imports represents over \$3.5 million to farm labor, \$1.5 million to processing labor, and \$10 million to growers.

Many growers and processors are small operators who have been able to compete effectively in normal domestic marketing, but are most severely affected when the supply is inflated by imported product and prices are depressed.

Strawberry growing and processing is really a small business generally carried on by small and medium sized processors.

We encourage the committee to consider the strawberry problem in this perspective.

U.S. growers are unable to compete successfully in the domestic market with frozen strawberries produced in Mexico. The reasons

are simple. Strawberry growing and processing has a very high requirement for labor, ingredients, and supplies.

Labor costs in Mexico, both on the farm and in the plant, are less than 10 percent of such costs in the United States, Mexican sugar prices are about 53 percent, and 30-pound containers are roughly 94 percent of current prices in the United States.

The direct result of these and other similar advantages has been the extremely rapid growth of a fledgling industry in Mexico, based almost entirely on an export market, principally the United States.

Canada has also become an important export outlet for this production, and this export volume has almost completely replaced that formerly enjoyed by U.S. exporters.

The U.S. strawberry industry is not subsidized, nor is it asking for a subsidy. It has made every effort to help itself, but it cannot control imports.

The import duty has been lowered from 35 to 14 percent, which encourages imports.

Representatives of U.S. processors and growers met with Mexican processors and growers in 1963, and the Mexicans agreed to limit imports to quantities that would not unduly upset the balance of the U.S. market.

However, this voluntary approach was not successful, and imports continued to rise sharply.

This situation has resulted in instability in the American market, and uncertainty among growers.

This industry realizes that the U.S. must share its markets, but proposes that this share be limited to a formula based on a moving 5-year average of annual disappearance.

The average disappearance in the United States for the most recent 5-year period, 1962-63 through 1967-68, is 273 million pounds. During this same period, imports of frozen strawberries from Mexico have averaged 56.3 million pounds.

In the light of these figures, an annual quota of 20 percent for frozen strawberry imports would be reasonable, including fruit pastes and fruit pulps.

We suggest that a quota of, say, 20 percent of annual domestic disappearance of frozen strawberries be established for imports, based upon the average disappearance for the last 5 marketing years.

This sort of formula would enable foreign exporters to take advantage of increasing markets in the United States, or conversely, it would hold them to reasonable levels in a declining market. (See tables II and III.)

The market prices of Mexican imports in table III also reflect the growing problems of the U.S. strawberry growers and producers. These prices run 1 to 5 cents per pound below the U.S. market.

U.S. growers are faced with increasing demands for higher wages and benefits for farm labor. The grower is generally in favor of these increases, but grower returns are not sufficient to provide needed dollars without a higher market price.

Low prices of uncontrolled imported strawberries are a major factor in suppressing grower prices and the wages he can pay.

Strawberry growers and processors do provide a great many jobs for young people, both in the field, and in the processing plants. The

seasonal nature of this crop in most States makes its labor requirement needs occur during summer vacation, and it is completed prior to the start of school in the fall. This again fills a void in supplying a large number of summer jobs asked for by the President.

U.S. growers are being squeezed by rising costs of equipment and supplies as well as labor, plus demands from consumers for lower prices. This system will not work. U.S. citizens can afford products grown by U.S. growers.

We feel that H.R. 9071, using 20 percent of the 5-year average disappearance of the U.S. market gives ample room for imports and a healthy domestic market.

(Tables referred to follow:)

TABLE I.—STRAWBERRIES—ACREAGE AND INDICATED PRODUCTION, BY SEASON AND STATE, 1968 WITH COMPARISONS

Crop and State	Acreage		For harvest, 1968	Production (in thousands of pounds)		
	Harvested			Average 1962-66	1967	Indicated, 1968
	1962-66	1967				
Strawberries: ¹						
Winter.....	2,380	2,000	1,800	20,906	17,600	14,400
Spring: California.....	9,080	8,000	8,500	212,978	208,800	238,000
Early spring.....	5,660	4,400	3,800	16,460	13,280	11,200
Mid-spring:						
Illinois.....	1,700	1,500	1,500	4,136	4,050	3,600
Missouri.....	1,040	800	750	2,567	2,080	1,950
Maryland.....	870	800	750	2,856	2,320	3,750
Virginia.....	2,000	1,400	1,300	5,408	4,200	3,900
North Carolina.....	2,040	2,000	1,900	5,736	4,200	6,650
Kentucky.....	1,280	1,000	900	3,888	3,000	2,340
Tennessee.....	4,040	2,400	1,700	10,087	6,720	4,250
Alabama.....	730	650	600	1,662	1,300	1,140
Arkansas.....	3,880	2,600	2,300	9,057	7,800	5,750
Oklahoma.....	1,160	900	900	2,886	3,600	3,600
Group total.....	19,120	14,050	12,600	48,880	39,270	36,930
Late Spring:						
Maine.....	360	350	320	1,109	1,155	990
Massachusetts.....	370	370	250	1,385	1,591	1,330
Connecticut.....	360	350	300	1,079	1,050	990
New York.....	2,780	2,400	2,100	9,660	6,480	6,720
New Jersey.....	2,520	2,400	2,500	11,840	9,120	11,000
Pennsylvania.....	1,540	1,800	1,800	4,934	5,040	5,040
Ohio.....	1,760	1,500	1,600	4,894	4,800	3,840
Indiana.....	1,200	1,100	1,300	3,756	4,620	5,850
Michigan.....	7,560	6,800	5,900	33,098	29,240	23,600
Wisconsin.....	1,920	1,900	1,900	5,000	4,940	3,990
Washington.....	6,180	5,600	5,300	42,004	35,840	34,450
Oregon.....	13,400	14,000	12,300	83,740	95,200	81,180
Group total.....	40,060	38,570	35,670	202,914	199,076	178,950
All States.....	76,300	67,020	62,370	502,138	478,026	479,480

¹ Includes processing.

Source: U.S. Department of Agriculture Statistical Reporting Service, Sacramento, Calif.

TABLE II.—STRAWBERRIES (FROZEN)—U.S. SUPPLY AND DISAPPEARANCE, SEASONS 1942-43 TO 1966-67

[Million pounds]

Season (May-April)	Beginning stocks (May 1)	Pack	Imports	Total supply	Disappearance	Ending stocks (Apr. 30)
1942-43	25.9	63.8	0.1	89.8	74.4	15.4
1943-44	15.4	29.8	.1	45.3	33.8	11.5
1944-45	11.5	34.8	.4	46.7	34.0	12.7
1945-46	12.7	36.9	.2	49.8	33.0	16.8
1946-47	16.8	78.1	.1	95.0	77.3	17.7
1947-48	17.7	109.0	.2	126.9	111.0	15.9
1948-49	15.9	160.1	.6	176.8	140.4	36.4
1949-50	36.4	107.6	1.6	145.6	134.5	11.1
1950-51	11.1	192.7	3.6	207.4	156.8	50.6
1951-52	50.6	157.7	6.6	214.9	173.4	41.5
1952-53	41.5	200.3	5.4	247.2	201.8	45.4
1953-54	45.4	226.0	7.4	278.8	227.3	51.5
1954-55	51.5	221.4	8.9	281.8	241.2	40.6
1955-56	40.6	273.0	12.0	325.6	260.6	65.0
1956-57	65.0	312.3	12.3	389.6	287.3	102.3
1957-58	102.3	259.3	13.7	375.3	291.1	84.2
1958-59	84.2	261.5	16.3	362.0	273.3	88.7
1959-60	88.7	248.2	15.0	351.9	267.3	84.6
1960-61	84.6	217.5	33.5	335.6	246.1	89.5
1961-62	89.5	222.7	29.0	341.2	264.6	76.6
1962-63	76.6	234.6	34.5	345.7	266.3	79.4
1963-64	79.4	234.4	40.7	354.5	292.9	61.6
1964-65	61.6	252.6	42.9	357.1	272.4	84.7
1965-66	84.7	191.6	74.6	350.9	264.1	86.8
1966-67	86.8	213.3	76.5	376.6	269.3	107.

Source: Annual reports of Foreign Agricultural Service, Agricultural Estimates Division, SRS, and National Association of Frozen Food Packers.

TABLE III.—STRAWBERRIES (FROZEN)—IMPORTS FROM MEXICO; AVERAGE PRICES, UNITED STATES AND MEXICAN PRODUCT, YEARS 1957-67

Calendar year	Mexico imports (million pounds)	Average f.o.b monthly price quotations (cents per pound)		
		California	Northwest	Mexico
1957	13.8	16.0	18.2	16.0
1958	14.4	17.0	18.0	17.0
1959	14.2	19.5	20.7	18.5
1960	24.9	20.2	20.5	19.0
1961	29.9	18.0	20.5	17.0
1962	32.3	17.0	19.0	17.0
1963	34.6	17.7	19.5	17.7
1964	39.7	20.5	20.7	19.0
1965	51.8	23.2	24.2	23.0
1966	82.8	23.7	25.0	20.0
1967	72.7	23.0	22.5	18.0
1968	144.3			

¹ Preliminary, through June 2.

Sources: Mexico imports, U.S. Bureau of Census; California and Pacific Northwest price quotations, Quick Frozen Foods (monthly); Mexico prices, New York Journal of Commerce.

Mr. ULLMAN. Thank you very much, Mr. Ward.

Are there questions?

Mr. Conable.

Mr. CONABLE. Mr. Ward, do you have any idea what percentage of the strawberries coming in from Mexico are being produced there by Americans?

Mr. WARD. No, we don't have that figure.

Mr. CONABLE. My understanding is that there is a substantial outflow of American productive capacity from California to Mexico, as a result of labor shortages in California.

Mr. WARD. We in discussing this estimated the percent to be small, not real large. I mean less than half.

Mr. CONABLE. I see.

Thank you.

That is all, Mr. Chairman.

Mr. ULLMAN. You are saying that it is not possible to compete in the American market with Mexican strawberries? Is that right?

Mr. WARD. Correct.

Mr. ULLMAN. Are they able to produce a comparable berry there?

Mr. WARD. Their quality is improving. However, their quality has not been as good a quality as you do have in certain strawberry-producing areas.

However, for preserves versus a retail pack, they do a fair job.

Mr. ULLMAN. I am sure you have explored every possible avenue of protecting your industry. Your industry has had to cut back in its production, has it not?

Mr. WARD. Yes. We have cut back, from 1956 to 1959, since that time, and it appears that we are now starting on another decline in our acreages throughout the several States producing strawberries.

Mr. ULLMAN. Is it your feeling that they can go on developing new acreage in Mexico? Is there still a lot of land that can be used for berries?

Mr. WARD. Yes. It is our feeling that in 10 years they could completely take over the processed strawberry market in the United States, if they so desire, or were pushed ahead that fast.

Mr. ULLMAN. It is a heavy labor using commodity, and does this account for most of the advantage they have down there?

Mr. WARD. Yes. Our recent figures, which were stated in a report to the National Advisory Commission on Food and Fiber on January 11, 1967, stated that the Mexican field labor runs from \$1 to \$1.20 per day, versus \$1.40 an hour in California, and the cost of labor in Mexican plants is \$1.56 a day, versus \$2.09 an hour in California.

Mr. ULLMAN. Thank you very much, Mr. Ward. I am sure that the committee will take the matter under consideration.

Mr. WARD. Thank you.

Mr. BURKE. Without objection, Mr. Chairman, I think it would be appropriate to place in the record a number of Tariff Commission statistical tables and comments on strawberries, in connection with Mr. Ward's testimony.

Mr. ULLMAN. Without objection, the material will be placed in the record at this point.

(The material referred to follows:)

STRAWBERRIES

I. Tariff status, TSUS numbers, and rates of duty

TSUS No.	Description	Rate of duty		U.S. imports, 1967 (thous- ands of pounds)
		December 1967	Post K.R.	
146.58	Fresh, or in brine: Entered during June 15-Sept. 15, in- clusive, of any year.	0.5 cent per pound ¹	0.2 cent per pound..	1,216
146.60	Entered any other time.....	0.75 cent per pound ²	0.75 cent per pound..	20,520
146.7520 ³	Frozen strawberries.....	14 percent.....	14 percent.....	74,659
152.7420 ⁴	Strawberry pulp and paste.....	15 percent.....	15 percent.....	6,042

¹ Based on 1967 imports, virtually all from Canada, the AVE was 1.4 percent.

² In 1967, the AVE ranged from 0.8 percent to 12.0 percent. The average AVE on imports from Mexico, which accounted for the great bulk of the entries, was 4.8 percent.

³ Formerly 146.7220.

⁴ Formerly 152.70 (part).

Note: Import data include fresh and frozen strawberries and strawberry paste and pulp but exclude minor quantities of strawberry jam; imports of strawberries in all other forms have been negligible.

II. U.S. production and trade

STRAWBERRIES: FRESH AND PREPARED OR PRESERVED¹ (TSUS 146.58, -60, -7520, AND 152.7420)

[In millions of pounds, fresh weight equivalent]

Year	Production	Imports	Exports ²	Apparent consumption	Ratio of imports to—	
					Production (Percent)	Consumption (Percent)
1963.....	510	36	22	524	7.1	6.9
1964.....	557	43	22	578	7.7	7.
1965.....	459	55	15	499	12.0	11.
1966.....	464	87	14	537	18.8	16.2
1967.....	478	86	10	554	18.0	15.5
1963-67 average.....	494	61	17	538	12.3	11.3

¹ Data on production includes output for the fresh market and for processing. The fresh weight equivalent of imported frozen strawberries and strawberry pulp is computed at 80 percent of the reported total weight of the imports to take account of the sugar content of the entries.

² Data on exports, which are not separately available, are estimates based upon import statistics for Canada, which accounts for the great bulk of U.S. foreign shipments.

Note: The data on production include small quantities of strawberries for canning. The combined output of fresh and frozen strawberries shown on the succeeding tables do not add to the total shown above, primarily because the production data for the following table on frozen strawberries is on a finished product basis, including the weight of added sugar.

Source: Production compiled from official statistics of the U.S. Department of Agriculture; imports compiled from official statistics of the U.S. Department of Commerce.

FRESH STRAWBERRIES (TSUS 146.58 AND 146.60)

[Quantity in millions of pounds]

Year	Production ¹	Imports	Exports	Apparent consumption	Ratio of imports to—	
					Production (percent)	Consumption (percent)
1961.....	285.9	0.7	² 25.1	² 261.5	0.2	0.3
1962.....	290.5	1.0	² 21.3	² 270.2	.3	.4
1963.....	295.1	3.6	² 20.4	² 278.3	1.2	1.3
1964.....	297.3	5.2	² 21.0	² 281.5	1.7	1.8
1965 ³	249.2	6.4	13.0	242.5	2.6	2.6
1966.....	257.4	13.1	12.7	257.8	5.1	5.1
1961-66 average..	279.2	5.0	18.9	265.3	1.8	1.9
1967.....	278.4	21.7	9.8	290.3	7.8	7.5

¹ Production for fresh market; includes small quantities for processing from some States.² Export data used in computing apparent consumption for the years 1961 to 1964 represent Canadian imports of fresh strawberries from the United States as reported in the official statistics of the Dominion of Canada.³ Excludes 22,100,000 pounds produced in 1965 but not marketed.

Source: Production compiled from official statistics of the U.S. Department of Agriculture; imports and exports compiled from official statistics of the U.S. Department of Commerce, except as noted.

Note: The Fresh Fruits and Vegetables Market-Sharing Act of 1968 (H.R. 16416) provides that quotas be based so-called "import year" which includes the months of January through July plus December in any calendar year. It is estimated that of the 1961-66 averages, approximately 99 percent of production, 88 percent of imports, 100 percent of exports, and 99 percent of consumption occurred during this "import year." Based on this "import year" the estimated ratios of imports to production and to consumption over the years 1961-66 would have been about 1.6 and 1.7 percent, respectively.

FROZEN STRAWBERRIES, AND STRAWBERRY PULP AND PASTE, (TSUS 146.7520 AND 152.7420)

[Quantity in thousands of pounds]

Year	Production	Imports ¹	Exports ²	Apparent consumption ³	Ratio of imports to—	
					Production	Consumption
1961.....	222,694	33,817	2,978	262,745	15.2	12.9
1962.....	234,620	36,781	2,545	261,712	15.7	14.0
1963.....	234,440	40,146	2,414	299,202	17.1	13.4
1964.....	252,646	46,997	877	273,420	18.6	17.2
1965.....	191,613	60,366	2,588	283,552	31.5	21.3
1966.....	236,492	91,807	969	295,784	38.8	31.0
Average 1961-66..	228,751	51,652	2,062	279,402	22.6	18.5
1967.....	198,940	80,701	508	288,258	40.6	28.0

¹ Frozen strawberry imports were not separately reported prior to Aug. 31, 1963. Data used for years prior to 1964 are for imports of frozen berries from Mexico; such entries are believed to have consisted almost entirely of strawberries, and Mexico was virtually the only supplier. Imports of strawberry paste and pulp, all of which are believed to have been frozen, were not separately reported prior to 1967. Data used for 1961-63 are estimates based on information obtained from trade sources; the data for 1964-66 are based on an analysis of import documents.

² U.S. export statistics are not separately reported. Data shown are Canadian imports from the United States. Exports to other countries are believed to have been negligible.

³ Consumption data have been adjusted to reflect carry-in and carry-out stocks.

Source: Production data are compiled from official statistics of the National Association of Frozen Food Packers. Imports are from official statistics of the U.S. Department of Commerce, except as noted, and exports from official import statistics of Canada.

III. Principal sources of imports

FRESH STRAWBERRIES (TSUS 146.58 AND 146.60)

[Quantity in thousands of pounds]

Source	1965	1966	1967
Total, all countries:			
Quantity.....	6,442	13,135	21,736
Value (1,000 dollars).....	1,023	2,404	3,621
Unit value (cents per pound).....	15.9	18.3	16.7
Mexico:			
Quantity.....	5,791	11,747	20,499
Value (1,000 dollars).....	844	2,048	3,180
Unit value (cents per pound).....	14.6	17.4	15.5
Canada:			
Quantity.....	608	1,128	1,216
Value (1,000 dollars).....	165	316	436
Unit value (cents per pound).....	27.1	28.0	35.8

FROZEN STRAWBERRIES (TSUS 146.7520)

Source	1965	1966	1967
Total, all countries:			
Quantity.....	53,866	85,707	74,659
Value (1,000 dollars).....	8,193	15,874	10,319
Unit value (cents per pound).....	15.2	18.4	13.8
Mexico:			
Quantity.....	51,796	82,826	72,693
Value (1,000 dollars).....	7,805	15,264	9,991
Unit value (cents per pound).....	15.1	18.4	13.7
Poland:			
Quantity.....	1,313	2,523	1,830
Value (1,000 dollars).....	242	449	302
Unit value (cents per pound).....	18.5	17.8	16.5
Netherlands:			
Quantity.....	757	276	128
Value (1,000 dollars).....	146	54	24
Unit value (cents per pound).....	19.3	19.6	18.9

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

COMMENTS

Imports

The great bulk of the U.S. imports of both fresh and frozen strawberries are supplied by Mexico. Canada has supplied most of the remaining imports of fresh strawberries; Poland and the Netherlands have in recent years exported small amounts of frozen strawberries to the United States. Generally, the import season for fresh Mexican strawberries begins in the fall (usually November), peaks in winter months and declines sharply in the spring as the domestic crop begins to enter the market in increasing volume (usually April).

STRAWBERRIES, FRESH: U.S. IMPORTS FROM MEXICO¹

[In thousands of pounds]

Month	Year beginning November 1—							
	1960	1961	1962	1963	1964	1965	1966	1967
November.....		43	41	394	464	746	870	982
December.....	23	201	403	703	931	1,256	3,080	4,730
January.....	26	187	576	210	722	1,945	2,730	6,850
February.....	10	150	702	538	729	1,849	4,741	6,439
March.....	305	329	319	1,357	1,273	2,288	4,741	3,205
April.....	19	72	595	354	921	1,519	2,912	2,390
May.....	4	14	113	233	111	176	748	
Total.....	387	966	2,449	3,794	5,151	9,779	18,715	

¹ The Mexican season for fresh marketing begins in November of the year shown and ends in May of the following year.

Source: U.S. Department of Agriculture.

All of the entries of fresh strawberries from Mexico enter at the "non-seasonal" rate of duty of 0.75 cents per pound (about 4.8 percent AVE in 1967). Most of the small imports from Canada enter at the seasonal (June 15–September 15) rate of 0.5 cents per pound—the equivalent of about 1.4 percent ad valorem in 1967.

Mexican strawberry production began in significant commercial quantities in 1948. The first shipments to the United States were frozen strawberries, and the sizeable shipments of fresh strawberries commenced in 1959. During the 1965 crop year Mexico produced about 110 million pounds of strawberries, more than 80 percent of which are estimated to have been exported to the United States, particularly in the form of frozen strawberries.

In the Bajío—which is the principal growing area and which extends from Leon and Irapuato on the north to Zamora on the west and Morelia on the east and covers the major portion of the State of Guanajuato and of Michoacán—strawberries have been the most important horticultural crop grown and processed.¹ In recent years growers, as well as processors, have begun diversifying production, and this area is becoming an important center for freezing vegetables for export. Prior to a huge crop in 1965–66, the area experienced a large expansion in both acreage and production facilities. Subsequently, the emphasis was placed upon marketings geared to sales that could be made at profitable prices, and efforts have been made to diversify by producing other commodities such as fruit juices, nectar concentrates, and the like.

U.S. imports of frozen strawberries from Mexico reached a peak of 82.9 million pounds in 1966. The resulting low prices, coupled with adverse weather, brought a reduction in imports the following year. Imports of frozen berries during January–March 1968 were about twice those of the comparable period in 1967. However, imports during April were less than half as large as in April 1967, so that total imports through April were about the same as those of last year. Processors and growers in the Bajío expect total 1967–68 exports to be no larger than in the previous season. The freezers believe that under present conditions exports should be in the neighborhood of 70 million pounds.

The frozen berries are trucked to the United States, with the bulk of the shipments entering at Laredo. The 30-pound can of whole berries is the standard pack although some berries are sliced upon order. Some processors are individually quick freezing (IQF) selected large berries, but IQF installations are limited to a few processors. Almost all of the imports from Mexico are of large (over 10 pound) packs for use by the manufacturers of preserves, jams, ice cream, baking products, and the like. About 50 percent of the domestic output of frozen strawberries has been put up in large containers in recent years for the food processing industries.

While the imports of the frozen pack from Mexico enter the United States the year around, the bulk of the entries in recent years has occurred during the spring and early summer season.

¹ The following discussion of the Mexican industry is taken from the U.S.D.A. publication, *Mexico's Production of Horticultural Products for Export*, FAS-M-199, June 1968.

STRAWBERRIES, FROZEN: U.S. IMPORTS FROM MEXICO

[Million pounds]

Month	Average 1959-61	1962	1963	1964	1965	1966	1967	1968
January.....	0.3	0.3	0.7	0.7	1.5	2.2	3.6	6.8
February.....	1.2	1.0	2.7	1.8	4.5	6.2	1.3	7.9
March.....	3.4	6.5	7.3	13.0	9.3	12.7	6.6	7.5
April.....	6.5	8.7	8.1	9.6	13.0	22.1	17.7	7.6
May.....	5.7	5.3	7.0	5.6	7.0	15.0	12.3	-----
June.....	2.9	6.0	3.4	4.2	5.9	7.3	9.6	-----
July.....	1.4	1.4	2.3	2.8	3.1	5.2	5.0	-----
August.....	.4	1.3	1.0	.8	1.9	3.3	4.8	-----
September.....	.4	.6	.6	.6	.6	2.5	3.8	-----
October.....	.4	.6	.5	.1	.9	1.7	3.9	-----
November.....	.1	.4	.4	.2	1.9	2.5	1.1	-----
December.....	.3	.2	.6	.3	2.2	2.2	3.0	-----
Total.....	23.0	32.3	34.6	39.7	51.8	92.9	72.7	-----

Source: U.S. Department of Agriculture.

During the current year, excess berries have been shipped fresh. Fresh shipments increased materially in the 1968 season, largely because of the voluntary restrictions on frozen berries. Reports indicate that grower associations are again discussing acreage restrictions for next season to enforce their orderly marketing plans. Similar efforts in the past, however, have not been effective.

Shipments of fresh strawberries can be expected to continue to increase. The growers ship their best size and quality berries to fresh markets and the balance to the freezer. About 75 percent of the fresh berries coming to the United States at McAllen, Texas, and most of the remainder cross at Laredo in the same State. Mexican fresh berries are also being airfreighted to Europe via the United States and Mexico City.

U.S. exports

U.S. exports of fresh strawberries, which until 1966-67 were larger than imports, traditionally have been to Canada. In recent years such exports have declined somewhat as Canadian imports from Mexico have increased. U.S. exports of fresh strawberries to Europe by air transport is a small but apparently growing trade. Exports of prepared strawberries, including frozen, are not separately reported but are believed to be small and to have consisted chiefly of shipments to Canada.

U.S. production

Strawberries are grown commercially in every State in the Union and constitute a perennial crop which provides production from the same acreage for both the fresh market and for processing. During 1961-66, about 55 percent of the average annual domestic crop was sold fresh. In California, which in recent years has accounted for about two-fifths of total U.S. production, from 65 percent to 75 percent of the crop is usually sold on the fresh market. In 1967, California's output totaled 209 million pounds (148 million for the fresh market) compared with 213 million pounds annually during 1962-66. According to the U.S. Department of Agriculture, California's 1968 harvest is estimated at 14 percent above last year's crop. The other ranking producers of strawberries for the fresh market are Florida, Michigan, Louisiana, New Jersey, and Arkansas. The bulk of the production in those States is marketed fresh, although about a third of the Michigan crop is normally processed. In contrast to California's gain in 1968, production in the latter States in the 1968 season is expected to be substantially below those of a year ago as a result of acreage reductions and a decline in yields due in part to adverse weather.

STRAWBERRIES: PRODUCTION BY GROUPS AND STATES, AVERAGE 1962-66, ANNUAL 1967 AND INDICATED 1968¹

[1,000 pounds]

Group and State	Average 1962-66	1967	Indicated 1968
Winter: Florida.....	20,906	17,600	14,400
Spring: California.....	212,978	208,800	238,000
Early spring:			
Louisiana.....	14,076	11,780	10,200
Texas.....	2,384	1,500	1,000
Group total.....	16,460	13,280	11,200
Midspring:			
Illinois.....	4,136	4,050	3,600
Missouri.....	2,567	2,080	1,950
Maryland.....	2,856	2,320	3,750
Virginia.....	5,408	4,200	3,900
North Carolina.....	5,736	4,200	6,650
Kentucky.....	3,888	3,000	2,340
Tennessee.....	10,087	7,720	4,250
Alabama.....	1,662	1,300	1,140
Arkansas.....	9,057	7,800	5,750
Oklahoma.....	2,886	3,600	3,600
Group total.....	48,880	39,270	36,930
Late spring:			
Maine.....	1,109	1,155	960
Massachusetts.....	1,385	1,591	1,330
Connecticut.....	1,079	1,050	990
New York.....	9,660	6,480	6,720
New Jersey.....	11,840	9,120	11,000
Pennsylvania.....	4,934	5,040	5,040
Ohio.....	4,894	4,800	3,840
Indiana.....	3,756	4,620	5,850
Michigan.....	33,092	29,240	23,600
Wisconsin.....	5,000	4,940	3,990
Washington.....	42,004	35,840	34,450
Oregon.....	83,740	95,200	81,180
Group total.....	202,914	199,076	178,950
All States.....	502,138	478,026	479,480

¹ For fresh market and processing.

Source: U.S. Department of Agriculture.

Most of the strawberries for processing are grown in the Pacific Northwest. Washington and Oregon together have accounted for from 25 percent to 30 percent of total U.S. production for all uses in recent years, and for most (more than two-thirds in 1967) of the U.S. frozen pack. Total production in those two States is estimated at 116 million pounds for the 1968 season, compared with 131 million in 1967, and an average annual of 126 million during 1962-66. Through June 15 of 1968, only about 17 million pounds of strawberries had been delivered to processors in Oregon and Washington, compared with 25 million pounds a year ago. This decline in deliveries, was expected to be offset by an increase in California's deliveries to freezers, which, through mid-June, were reported at about 29 million pounds—or about 53 percent more than during the same period last year.

STRAWBERRIES FOR PROCESSING: PRODUCTION, VALUE PER POUND, AND TOTAL VALUE, AVERAGE 1961-65,
ANNUAL 1966 AND 1967

Season and State	Production (thousand pounds)			Value					
	Average, 1961-65	1966	1967	Per pound (cents)			Total (thousand dollars)		
				Average, 1961-65	1966	1967	Average, 1961-65	1966	1967
Spring: California.....	179,760	60,500	60,700	13.0	16.5	14.7	10,112	9,982	8,923
Early spring: Louisiana.....	966	176	144	13.0	15.0	15.0	123	26	22
Mid-spring:									
Kentucky.....	1,208	1,240	380	14.6	18.0	13.5	172	223	51
Tennessee.....	7,512	3,500	704	14.2	17.8	14.9	1,031	623	105
Oklahoma.....	2,480	2,100	1,300	15.8	21.0	18.0	372	441	234
Total or average.....	11,200	6,840	2,384	14.6	18.8	16.4	1,574	1,287	390
Late spring:									
New York.....	1,680	1,500	700	12.7	13.2	13.1	210	198	92
Michigan.....	11,748	11,160	11,100	15.3	15.3	15.6	1,842	1,707	1,732
Washington.....	39,432	33,940	32,340	14.0	16.6	15.0	5,395	5,634	4,851
Oregon.....	174,288	93,000	192,300	13.3	17.3	14.1	9,642	16,089	12,422
Total or average.....	127,148	139,600	136,440	13.7	16.9	14.4	17,090	23,628	19,097
United States.....	219,074	207,116	199,668	13.4	16.9	14.5	28,899	34,923	28,432

¹ Includes some quantities not marketed and excluded in computing value: Late Spring, Oregon, 4,200,000 pounds in 1967.

Source: U.S. Department of Agriculture.

In 1963 (the latest year for which data are available) frozen strawberries were produced in 78 U.S. establishments compared with 94 in 1959. Two-thirds of the establishments were located in Oregon, Washington, and California in 1963. The U.S. Department of Commerce indicates that in 1963, 20 of the largest strawberry freezers accounted for 77 percent of the total production in that year. Fifty of the largest accounted for 99 percent of total output. Most establishments freezing strawberries also process other fruits and/or vegetables; frozen strawberries provide a substantial portion of the total income of a number of these producers. Data on the number of workers engaged in harvesting and processing strawberries are not available. Because of the short season for the crop, much of the labor is recruited locally as temporary help. In the major producing areas, wages for strawberry harvests have been increased to insure sufficient labor.

Mr. ULLMAN. Our next witness is Mr. Howard P. Chester.

Mr. Chester, we are very happy to have you before the committee. For the record, will you please identify yourself, and also all of your colleagues, and with the understanding your full statement will be in the record, proceed as you see fit.

STATEMENTS OF HOWARD P. CHESTER, EXECUTIVE SECRETARY, STONE, GLASS, AND CLAY COORDINATING COMMITTEE; APPEARING JOINTLY WITH RALPH REISER, INTERNATIONAL PRESIDENT, UNITED GLASS & CERAMIC WORKERS OF NORTH AMERICA; GEORGE BARBAREE, INTERNATIONAL SECRETARY-TREASURER, INTERNATIONAL BROTHERHOOD OF OPERATIVE POTTERS; VICTOR THOMAS, GENERAL VICE PRESIDENT, UNITED CEMENT, LIME, & GYPSUM WORKERS; HOLLAN CORNETT, EXECUTIVE BOARD MEMBER, UNITED STONE & ALLIED PRODUCTS WORKERS OF AMERICA; AND ROBERT LORD, VICE PRESIDENT, INTERNATIONAL BROTHERHOOD OF OPERATIVE POTTERS

Mr. CHESTER. We appreciate that, Mr. Chairman.

My name is Howard P. Chester. I am executive secretary of the stone, glass, and clay coordinating committee. This is a committee that consists of seven international unions, and these are all union officers here, and with your permission I would like to introduce them.

Mr. ULLMAN. Would you do that, please?

Mr. CHESTER. Starting on my left, Mr. Hollan Cornett, executive board member, United Stone & Allied Products Workers of America. Next to him is Mr. Ralph Reiser, international president of the United Glass & Ceramic Workers.

Starting on my far right is Mr. Robert Lord, vice president of the International Brotherhood of Operative Potters. Next to him is Mr. George Barbaree, secretary-treasurer, International Brotherhood of Operative Potters; and next to me, on my right, is Mr. Victor Thomas, general vice president of the United Cement, Lime & Gypsum Workers.

Mr. ULLMAN. We are pleased to have all you gentlemen before the committee.

Mr. CHESTER. Mr. Chairman and members of the committee, we have in all cases briefed our testimony, and, of course, we will submit more extensive documents for the record, with your permission.

I would first like to thank you for this opportunity to express our views.

Our stone, glass, and clay coordinating committee represents seven international AFL-CIO unions. We have a combined membership of 250,000 workers, with active locals in almost all of the 50 States.

The first subject covered in our brief is private foreign investments, and points up the tremendous increase in private investment abroad, from \$19 billion in 1950 to \$86.2 billion in 1966.

Turning to the distribution of direct private foreign investment, which has risen from \$11.7 billion in 1950 to \$54.5 billion in 1966, we find that contrary to the flow being to underdeveloped countries, where the need had been emphasized in the 1958 hearings, the investment flow has instead gone to developed countries, with Western Europe showing a 14-percent increase over 1957 for a total of 30 percent, which combined with Canada's 31 percent, shows that 61 percent of all private direct investment abroad has been made in the two highly developed areas.

With regard to industry distribution, manufacturing leads with 40 percent of the total, or \$22 billion, in all areas.

Many of these global corporations are showing their concern against any restrictions to their access to the U.S. market. They recognize that free access to U.S. markets is in their corporation interest.

They want to invest abroad, enjoy the markets and lower wage labor, and they also want to enjoy the U.S. market from abroad, in some cases in direct competition with their domestic operations, or other domestic producers of the same product.

For example, in 1965, U.S. foreign affiliates exported back to the United States \$5.133 billion in products from manufacturing, mining, and petroleum.

We certainly agree with the mandatory restrictions on foreign investment issued by President Johnson on January 1, 1968.

The second subject is the U.S. method of valuing imports on an f.o.b. as opposed to the method used by most countries, or c.i.f.

Our f.o.b. method definitely undervalues our imports by at least 10 percent, and creates several serious disadvantages.

An unrealistic figure is released, which inflates our supposed surplus in balance of trade. A realistic trade policy must be considered on accurate comparable statistics in order for Congress to make responsible trade legislation.

For example, our quoted 1967 surplus in trade of \$4.3 billion would be reduced to \$1.63 billion, if we added only 10 percent to our 1967 import figure for insurance and freight.

Our third subject is the effect of Government subsidies on U.S. trade statistics.

To reflect a true figure for calculating a surplus or deficit in trade, subsidies must be considered.

Testimony on the Trade Expansion Act before the Senate Finance Committee clearly shows that agricultural exports that are subsidized were included in overall export figures.

Later testimony revealed that of the \$5.1 billion of agriculture exports, \$2 billion of such exports were subsidized under Public Law 480, and for proper reporting, should have been excluded from the \$5.1 billion figure of agricultural exports.

Our trade statistics should truly show our position in trade, so that trade policy decisions can be based on accurate figures, and not figures that undervalue imports and overvalue exports.

The fourth subject is the useless portion of the Trade Expansion Act, section 301, or adjustment assistance to workers or firms.

To date, not one case has been certified for assistance.

The words "in major part" should be stricken from this section, as they were not in the bill when passed by the House.

I know there is recognition of this unworkable section, but I might suggest deletion of the words "in major part." Then the section has meaning.

Of course, I must point out that there is no substitute for a job, and a productive place in society, and labor, as I know it, is not interested in any dole, but by far prefers to work.

The fifth and concluding subject is the effect on labor of U.S. trade policy.

We believe all working Americans are affected by U.S. trade policy. Our Nation requires maximum employment, and healthy industries, to maintain a healthy economy.

Most industries are willing to share in the growth of the U.S. market with the foreign producers, but they are not willing to have this growth completely absorbed by imports, or to have present productive capacity and employment displaced by imports.

We believe that the tremendous rise in American investment and technology abroad added to rising capacity of foreign firms results in decreasing exports and increasing imports, and eliminates existing jobs and job potential, and reduces domestic industry's capacity to operate at a healthy level and properly share in our country's growth.

Our experience, borne out by statistics, shows that the products produced by the employees who are members of our committee have been and will continue to be faced with constantly rising imports, declining employment, plants closing their doors, and no relief in sight.

In pottery, for example, the 60-percent increase in imports in 1966 over 1961 is called the adding of insult to injury.

Imports of china and earthenware, made in major part by the Japanese, had already captured 48.4 percent and 33.6 percent of the domestic market respectively.

Twenty pottery plants have closed their doors since 1954, unable to compete with imports.

This is an almost unbelievable, but factual, account of what has happened in the pottery industry.

Of the \$55 million of total pottery imports in 1966, the Japanese captured \$33 million.

You will note the rising increases in imports of cement, lime, and gypsum products, with a 90-percent increase; ceramic floor and wall tile, 85-percent increase; flat glass, including sheet, plate, float, cast, and rolled, tempered, laminated, and mirrors, 22-percent increase; illuminating and table and arc glassware, a 67-percent increase.

These increases are based on a comparison of 1961 with 1966, and like pottery, do not show the previous damage.

Exports in all of these industries are minimal, while imports have displaced in excess of 50,000 workers.

Something must be done to prevent annihilation of these industries and their workers.

On behalf of the Stone, Glass, and Clay Coordinating Committee, we urge legislation to regulate foreign imports, U.S. foreign investment policy, and congressional consideration and approval before any changes are made in our antidumping procedures.

We support the Fair International Trade Act first introduced by Congressman Herlong on May 1, 1968, and subsequently introduced by more than 30 Congressmen, expressing their concern on the serious problem of uncontrolled imports.

As a closing comment, the United States has been warned by the EEC that we are risking further deterioration of our balance of payments unless we take vigorous remedial action against rising imports from the EEC.

This article was in the Washington Post May 21, 1968. We certainly should heed their timely warning.

Thank you very much.

(Mr. Chester's prepared statement follows:)

STATEMENT OF HOWARD P. CHESTER, EXECUTIVE SECRETARY, STONE, GLASS, AND CLAY COORDINATING COMMITTEE

MEMBERS OF COMMITTEE

Mr. George M. Parker, President, The American Flint Glass Workers Union of North America
 Mr. Lee W. Minton, President, The Glass Bottle Blowers Association of the United States and Canada
 Mr. E. L. Wheatley, President, The International Brotherhood of Operative Potters
 Mr. Paul Pelfrey, President, The United Brick and Clay Workers of America
 Mr. Felix C. Jones, President, The United Cement, Lime and Gypsum Workers International Union
 Mr. Ralph Reiser, President, The United Glass and Ceramic Workers of North America
 Mr. Harry Baughman, President, The Window Glass Cutters League of America

Mr. Chairman, my name is Howard P. Chester. I am the Executive Secretary of the Stone, Glass and Clay Coordinating Committee. We are composed of seven international unions, all affiliated with the AFL-CIO, who have joined together to cooperate on mutual problems that affect any one of our seven affiliates. We have a combined membership of 250,000 workers, with active locals in almost all of the fifty states.

In this Hearing on U.S. trade policies we would like to make it clear from the beginning that the Unions listed above represent employees in industries that are already extremely import sensitive and we know that the Kennedy Round of tariff cuts will serve to further accelerate the foreign low-wage imports in these industries. They are presently faced with large shares of the domestic market being captured by foreign imports, causing plants to close and workers to suffer loss of their employment.

To list some of the industries we are concerned with that are now suffering severe damage: pottery, ceramic tile, illuminating and table and art glassware, hydraulic cement, lime, gypsum, and flat glass. There are many other industries also showing their concern. We submit that for these labor-intensive industries to compete with the like product produced in foreign countries, who have willingly accepted our technology and our mass production system but did not accept our high wages, can only be destructive to our high wage, high purchasing power economy.

Most industries are willing to share in the growth of U.S. markets with the foreign producers, but they are not willing to have this growth completely absorbed by imports or to have present productive capacity and employment displaced by imports.

The Congress is showing great concern with our foreign trade policies and bills have been introduced; to establish import quotas on specified products; to amend the Trade Expansion Act; to amend the Anti-Dumping Act; to provide for orderly marketing, and to amend the Fair Labor Standards Act of 1938, to establish procedures to relieve domestic industries and workers injured by increased imports from low-wage areas. This last-described Bill, H.R. 478, known as the Dent Bill, resulted from years of research and testimony given before Congressman Dent's Subcommittee of the Committee on Education and Labor on "The Impact of Imports on American Labor." After thorough debate on September 28, 1967, the Bill passed the House by a strong majority of 340-29.

Senator Long, Chairman of the Senate Finance Committee, conducted Hearings October 18, 19 & 20, 1967 on the import quota bills that had been introduced in the Senate. Considerable interest was shown by the public, business, labor, Congress and Cabinet Officers of the Administration. Senator Long also will be conducting hearings on a legislative oversight review of U.S. trade policies, seeking more data on our trade policies.

Certainly we in Labor who are vitally affected by imports and U.S. trade policy should concentrate our efforts and battle for fair and just legislation. There are several important deficiencies in our present foreign trade policies that work in direct opposition to our national interest.

Private Foreign Investment

U.S. foreign investment—and, as a substantial part of this category, U.S. private foreign investment—must be given full consideration as an inseparable part of our foreign trade policy. The following Chart "A" will serve to show the

astounding increases in our U.S. foreign investments; Chart "B" the area distribution of U.S. direct private foreign investments; Chart "C" the industry distribution of U.S. direct private foreign investments. (The sources of information for Charts A, B and C were the 1958 Hearings by the Subcommittee on Private Foreign Investment, and the Department of Commerce Survey of Current Business, September, 1967.)

CHART A.—U.S. INVESTMENTS ABROAD
[In millions of dollars]

	1950	1957	1966
Total U.S. investments abroad.....	\$32,844	\$54,215	\$111,874
Private investments.....	19,004	36,812	86,235
Long term.....	17,488	33,588	75,565
Direct.....	11,788	25,252	54,562
Portfolio.....	5,700	8,336	21,003
Short term.....	1,516	3,224	10,670
U.S. Government credits and claims.....	13,840	17,403	25,639
Long term.....	13,518	15,548	21,182
Short term.....	322	1,855	4,457

In Chart "A" we find that total U.S. investment abroad in 1966 has increased by practically four times the 1950 figure of \$32.8 billion. The large share of the 1966 total figure is made up of private investments, \$86.2 billion of the \$111.8 billion total for 1966.

The divisions of private investment are long-term meaning a period in excess of one year, and short-term. The book value of our various short-term private investments at the end of 1966 totaled \$10.6 billion.

Long-term private investments can be placed in two categories, portfolio and direct. Portfolio investment largely entails private ownership of foreign government bonds and business securities, with no implication in management decisions. Portfolio investment abroad in 1966 totaled \$21 billion.

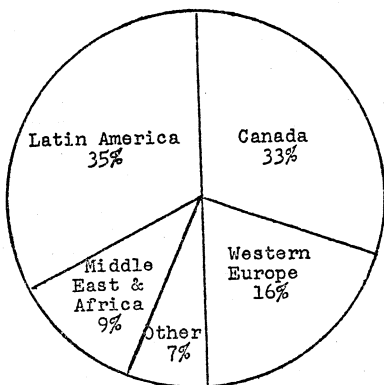
Direct foreign investment is ownership of 25 percent or more of a business and usually important management participation. Private direct foreign investments abroad in 1966 totaled \$54.5 billion.

In all divisions of private foreign investment, comparing 1950-1957-1966, there have been tremendous increases in the holdings of U.S. companies and private investors abroad.

CHART "B"

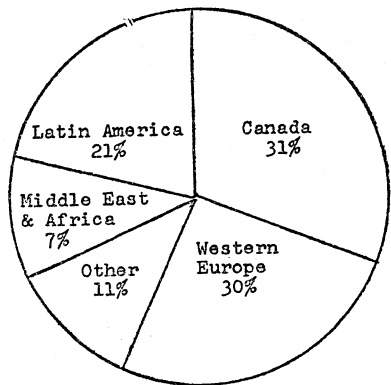
AREA DISTRIBUTION OF
U.S. DIRECT PRIVATE FOREIGN INVESTMENTS

1957



BOOK VALUES, \$25.3 BILLION

1966



BOOK VALUES, \$54.5 BILLION

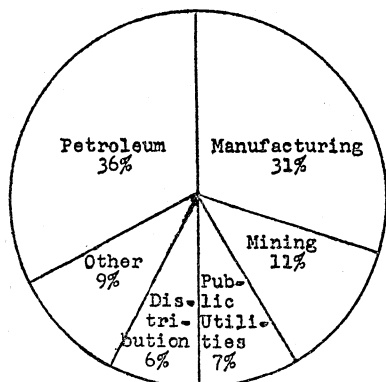
In Chart "B" comparing the area distribution of direct private foreign investment for 1957 with 1966 we find that considerably more investment dollars went into Western Europe, with a 14 percent increase, so the investment flow is to the developed countries, in Western Europe and to Canada, while the less developed and underdeveloped countries in Latin America, Africa and the Middle East dropped considerably in investments to their areas. And this happened despite the emphasis, stated in the 1958 Hearings, on the necessity of changing the private investment pattern to encourage more flow to Latin America, Middle East and Africa to deter the Soviet economic offensive in those areas.

CHART "C"

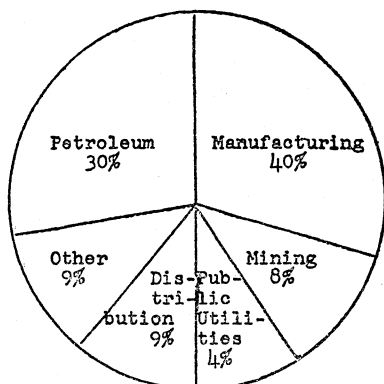
INDUSTRY DISTRIBUTION OF U.S. DIRECT PRIVATE FOREIGN INVESTMENTS

1957

1966



BOOK VALUES, \$25.3 BILLION



BOOK VALUES, \$54.5 BILLION

Chart "C" compares the industry distribution of U.S. direct private foreign investments in 1957 with 1966. You will note a strong upward thrust in manufacturing investment, a 9 percent increase over 1957, a decline in petroleum, mining and public utilities. Manufacturing leads all other industry investment with a 1966 foreign total of \$22 billion in all areas, while petroleum is in second place with \$16 billion.

The three charts which show the increases in U.S. private foreign investment bear out a prediction made by Mr. Robert M. Mitchell, Vice President of the Whirlpool Corporation, in Hearings held on the subject of private foreign investment by the Subcommittee on Foreign Trade Policy, December 1958. After Mr. Mitchell's testimony, questions were asked by Congressman John W. Byrnes:

"Mr. BYRNES. As I gather the basis of your concern here, among other things, is the fact that you foresee a necessity as far as American business is concerned to shift from an export business to manufacturing abroad, an investing and going through the manufacturing process abroad; is that right?"

"Mr. MITCHELL. That is correct, Mr. Byrnes.

"Mr. BYRNES. Do you attribute that trend in part to this common market trend, the European Common Market and the proposals for a common market in other areas? Is there any other factor that gives rise to that?"

"Mr. MITCHELL. Basically that is it, Mr. Byrnes. In many of the Latin American countries at the moment for practical purposes it is impossible to export particularly consumer durable goods. There is a rising nationalism in many of these countries, and they are trying to industrialize, and to raise their standard of living. So that American companies, if they are going to have a part of that market at all, must invest in some form or other.

"Mr. BYRNES. You don't see a great future then as far as the export of finished commodities from this country. You see that contracting, I gather, and an increase in manufacturing abroad and with foreign labor?"

"Mr. MITCHELL. I think that is the way it will happen; yes, sir.

"Mr. BYRNES. Great emphasis has been put on the fact of the importance of the trade-agreements program and all of the rest of it, and the increase in our exports, and the developing of this freer trade. I gather that you would suggest at least by your testimony that we may be getting into a period where that is going to be reversed?

"Mr. MITCHELL. I think that that is quite right, sir.

"Mr. BYRNES. That is all."

This prediction of increasing investment abroad and the decrease in the export of finished commodities from this country has come to pass. This increased foreign capacity can only serve to decrease our exports and increase our imports, and since capital is mobile and labor is not, the result has been loss of American jobs and loss to those American industries that do not choose to move or that do not have the capital to make such a move.

Many U.S. corporations are becoming global in their makeup, with vast holdings and assets in other nations. Consider that in 1950, in direct private foreign investment the U.S. had \$11.8 billion invested around the world, this rose to \$25.3 billion in 1957 and to \$54.5 billion in 1966. Many of these global corporations are showing their concern against any restriction to their access to the U.S. market. They recognize that free access to U.S. markets is in their corporation interest; they want to invest abroad, enjoy the markets and low-wage labor; and they also want to enjoy the U.S. market from abroad, in some cases in direct competition with their domestic operation or other domestic producers of the same product.

United States foreign manufacturing affiliates' sales in 1965 were \$42.4 billion compared to \$18.3 billion in 1957, for an increase of 132 percent.

In 1965, \$34.7 billion of such sales were within the area of plant location, however \$7.7 billion represented export sales to other countries, including the United States. The products shipped to the U.S. amounted to 24 percent of total export sales of manufacturing affiliates, or \$1.856 billion.

This figure does not include exports to the U.S. of foreign mining affiliates of U.S. firms in the amount of \$1.225 billion, nor does it include exports to the U.S. of petroleum and petroleum products by U.S. foreign petroleum affiliates, estimated at \$2.052 billion.

Combining manufacturing, mining and petroleum export sales to the U.S., by U.S. foreign affiliates in 1965, the total would be an astounding \$5.133 billion.

The time has come for a re-evaluation of this expanded investment program in terms of the U.S. economy, employment, outflow of capital, loss of revenue to the United States and effect of imports on U.S. industry and labor.

Our rising deficit in our balance of payments has brought this problem into focus and President Johnson has wisely issued mandatory restrictions on private foreign investment as of January 1, 1968. We heartily agree with his actions designed to preserve our country's financial strength.

FOB versus CIF

The official valuation of U.S. imports is based on foreign value of the merchandise abroad prior to shipment, and therefore excluding ocean freight and insurance charges. The major alternative method in use by most other countries is referred to as CIF valuation; to the value of the goods in the country of origin is added the cost of ocean freight and insurance involved in shipment to the importing country. The resulting reported value of imports is thus higher than the foreign value by the amount of ocean freight and insurance.

The United States method of foreign valuation of imports is completely out of step with most of the world; of 154 countries that tabulate import statistics, 131 use the CIF method while only 23 use the FOB method. The United Nations has recommended the use of the CIF method to promote international comparability of foreign trade data.

There are many serious disadvantages in being out of step in valuing our imports; the American public get an inflated, unrealistic figure with respect to balance of trade overall and with respect to country by country comparisons; a realistic trade policy must be considered on accurate, comparable statistics in order for Congress to make responsible trade legislation; a CIF valuation is estimated at the very least to provide a 10 percent increase in the value of U.S. imports; CIF values are far more accurate for analysis of imports in relation to domestic consumption or production.

Based on Department of Commerce figures (*Washington Post*, January 12, 1968) exports for 1967 were estimated \$31 billion and imports \$26.7 billion. Adding 10 percent—a conservative figure—to imports for CIF valuation, this figure becomes \$29.37 billion, and our balance of trade figure quoted at \$4.3 billion drops to \$1.63 billion, a sharp drop of \$2.67 billion. Of course many countries use in excess of 20 percent to add the CIF valuation. If we used their CIF percentage in computation, we would have a deficit in our trade account.

Effect of U.S. Government Subsidies

Government subsidies have a tremendous effect on U.S. trade statistics; to reflect a true figure for calculating a surplus or deficit in trade, subsidies must be considered. For example, in testimony before the Senate Finance Committee in their consideration of the Trade Expansion Act, Secretary of Agriculture Freeman, August 15, 1962, on a request by Senator Bennett to supply the record with figures to show the percentage of total exports agriculture represented, the following are the figures supplied:

Value of U.S. exports, total and agricultural, in fiscal year 1961-62

Total exports-----	\$21, 216, 874, 000
Agricultural exports-----	5, 138, 837, 000
Percentage of agricultural to total exports-----	24

In order to find the true figures of our exports that move in commercial competition or for dollar sales we must know the breakdown of the subsidized products and shipping costs paid for by the U.S. Government. In response to a request by Senator Curtis on the same day, for a breakdown on export subsidies, P.L. 480 subsidies shipping costs, trade mission costs, Secretary Freeman supplied the following information:

Cost of financing agricultural exports under Food for Peace (Public Law 480) and export subsidy programs July 1, 1961 through May 31, 1962:

Public Law 480:

Gross cost to CCC of financing sales of agricultural commodities for foreign currency under title I-----	<i>Millions</i> 1 \$1, 212. 7
Ocean transportation costs financed by CCC-----	88. 3
CCC cost of commodities granted under title II-----	165. 8
CCC cost of commodities donated under title III-----	194. 7
Excess of CCC investment over exchange value of materials received under title III barter program-----	3. 9
CCC cost of title IV sales in excess of anticipated dollar repayments -----	16. 9
Total, Public Law 480-----	1, 682. 3
Cost to CCC of payment in kind and cash subsidies (excludes \$249,-800,000 PIK and cash subsidies included under gross cost of title I sales, above)-----	322. 1

Total cost of Public Law 480 and export subsidy programs-- 2, 004. 4

¹ In payment for commodities sold under this program, foreign governments are required to deposit the equivalent of \$907,000,000 in their local currency to the account of the U.S. Government. These currencies are used for various purposes authorized under sec. 104 of Public Law 480, such as payment of U.S. obligations abroad, agricultural market development, loans and grants for economic development, loans to U.S. and foreign private business, and other mutually agreed purposes.

USDA expenditures for trade fairs and other market development projects abroad amounted to \$7,500,000 during fiscal year 1962.

This information points up that our method of reporting exports is misleading and very unrealistic. In the above case agricultural exports of \$5.1 billion, and reported in the figure of total exports as such, should have been reported at \$3.1 billion or the staggering figure of \$2 billion less, and which immediately reduces the total export figures from \$21.2 billion to \$19.2 billion.

Our trade statistics should truly show our position in trade, so that trade policy decisions can be based on accurate figures, and not figures that undervalue imports and overvalue exports.

Adjustment Assistance under TEA

As an important part of the Trade Expansion Act, provisions are made for petitions to be filed with the Tariff Commission by workers or firms for adjustment assistance. The Tariff Commission makes an investigation and if their

report to the President is in the affirmative, the President may take action to provide tariff adjustment, provide that firms may request the Secretary of Commerce for certification of eligibility to apply for adjustment assistance, provide that the workers of such industry may request the Secretary of Labor for certification of eligibility to apply for adjustment assistance, or the President may take any combination of such actions.

This is what is provided in the law, but in actual practice since the enactment of the law October 11, 1962, not one case has been certified for adjustment assistance, and this very important provision has been rendered useless by a rigid interpretation by the Tariff Commission of Title III, Sec. 301, subsections (b) and (c) and the damaging phrase repeatedly used (quote): "Whether, as a result in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article." (end of quote)

The words "in major part" were not in the bill as passed by the House, it there read "whether, as a result of concessions granted under trade agreements." This is the wording under H.R. 11970 when it was being considered by the Senate Finance Committee and as Senator Harry Byrd placed it in the record at the outset of the Hearing, Monday, July 23, 1962.

The addition of the words "in major part," added by the Senate Finance Committee, stripped the law of any meaning, and resulted in a rigid interpretation by the Tariff Commission, and prevented any intent to provide assistance to workers and firms adversely affected by imports due to U.S. trade policy. A workable and effective adjustment assistance program was vitally important to Labor, in fact as AFL-CIO President Mr. George Meany testified, "It is indispensable to our support of the trade program as a whole."

Secretary of Commerce Hodges testified that he estimated that this part of the program would cost \$122 million for firms and \$45 million for workers over the five-year period of the law, a total of \$167 million.

To date not one case has had an affirmative finding for workers or firms.

In direct contrast the Automotive Products Trade Act of 1965, legislated after the trade agreement reached with Canada by the United States on automotive products, provides a more realistic approach to adjustment assistance. The Act provides for petitions by workers and firms; it provides for investigation by the Tariff Commission but contrary to the procedure under the Trade Expansion Act, the Automotive Adjustment Assistance Board makes the final determination and not the Tariff Commission.

This Board, consisting of the Secretaries of Commerce, Labor and Treasury, has been delegated authority by the President to carry out the provisions of Adjustment Assistance and in 12 of the first 16 cases filed, assistance has been provided and \$3 million in benefits have been paid to workers in approximately a two-year period. Of course there is no substitute for a job and a productive place in our society.

Effect on Labor of U.S. Trade Policy

All working Americans are affected by United States trade policy; our Nation requires maximum employment and healthy industries to maintain a healthy economy, and without a healthy economy our position as a world power and leader of the free world will quickly deteriorate, and just as quickly be replaced by another country less generous than the United States.

The tremendous rise in American investment and technology abroad, added to rising capacity of foreign firms—with the resulting decrease in exports and increase in imports—eliminates existing jobs and job potential, and reduces domestic industry's capacity to operate at a healthy level and properly share in our country's growth.

With 40 percent of direct private foreign investment or \$22 billion at the end of 1966, invested in manufacturing abroad, what effect will this have on U.S. imports and displacement of U.S. labor?

Manufactured products incorporate more steps of labor than do raw products. A manufactured product may go through a number of processes and fabrications in each of which additional labor is applied. A raw product goes through a minimum of steps, possibly only one or two exclusive of transportation. Semi-manufactures fall into a halfway slot between raw products and finished manufactures.

U.S. IMPORTS

[Dollar amounts in billions]

	1961	1966	Increase (percent)
Crude foodstuffs.....	\$1. 60	\$2. 12	32. 4
Crude materials.....	2. 87	3. 85	33. 9
Semimanufactures.....	3. 38	5. 59	65. 3
Manufactured goods, including food.....	6. 68	13. 99	109. 5

Comparing the five-year period 1961-66, the chart above points up with great clarity the large increases in imports of semimanufactures and manufactured goods, 65 percent and 109 percent respectively. Since these two classes of products carry with them the greatest amount of labor expended, it results in a larger displacement of U.S. workers and job opportunities.

U.S. IMPORTS

[Dollar amounts in millions]

	1961	1966	Increase (percent)
Cement, lime and gypsum.....	\$18,759	\$35,379	90
Ceramic floor and wall tile.....	14,952	27,744	85
Pottery, earthenware and chinaware.....	34,643	55,222	60
Flat glass.....	47,449	57,712	22
Illuminating and table and art glassware.....	21,712	36,239	67

The above comparison of 1961 with 1966, in the products produced by members of the Stone, Glass and Clay Coordinating Committee bear out the previously shown increases in imports of semimanufactures and manufactures of labor intensive products. It does not show the many years of damage causing plant closings, jobs eliminated and overall loss of potential jobs. These figures do show the increasing penetration of imports and the dollar amounts are based on FOB values and do not include ocean freight or marine insurance which would increase the amounts by at least 10 percent.

In pottery for example, the 60 percent increase in imports in 1966 over 1961 is called the adding of "insult to injury." Imports of china and earthenware, led in major part by the Japanese, *had already* captured 48.4 percent and 33.6 percent of the domestic market, respectively. This is an almost unbelievable but factual account of what has happened in the pottery industry. Of the \$55 million of total pottery imports in 1966 the Japanese captured \$33 million. Something must be done to prevent annihilation of this industry and its workers.

Note the rising increases in imports of cement, lime and gypsum products, with a 90 percent increase; ceramic floor and wall tile 85 percent increase; flat glass (includes sheet, plate and float, cast and rolled, tempered, laminated, and mirrors) 22 percent increase; and illuminating and table and art glassware, 67 percent increase.

The officers and members of these International Unions are showing great concern over the jobs that are continuing to be eliminated, by imports, and automation attempts to compete that have not slowed the tide, but acted as a deterrent to annihilation.

Immediate action to halt job losses due to our trade policies would be in our Nation's interest, and corrective measures should be taken, in conjunction with existing and proposed Government programs, to help our unemployed, and to put a stop to the dangerous erosion of U.S. employment due to the rising tide of foreign imports.

Summary

American jobs are being exported to other countries by the astounding increase in private foreign investment. Increasing from a 1950 figure of \$19.004 billion to a 1966 figure of \$86.235 billion or a 454 percent increase, using American investment plus foreign labor to produce products for sale within the foreign market and for export to the United States, displacing American labor and

yet expecting American workers to purchase products that are putting them out of work and destroying job potential. U.S. foreign affiliates exported products back to the U.S. totaling \$5.133 billion, in manufactured products, mining products, and petroleum and petroleum products. These exports flow from private direct foreign investment of \$54.5 billion, as of the end of 1966, located primarily in Canada and Western Europe.

The American people have for many years been misled, with regard to our balance of trade figures, into believing the United States has been enjoying large surpluses in our trade account, when in fact we are not. If we valued our imports as most countries do, on a CIF basis, our import valuations would increase by ten to twenty percent.

Also, we overvalue our exports by including Government subsidies within our export figures. As previously shown for fiscal 1961-62, \$2 billion was included in our agricultural export figure, that in reality represented the Government paid subsidies and Public Law 480 subsidies.

Reporting imports on a CIF basis, withdrawing Government subsidies when reporting agricultural exports, would give a true picture of our balance of trade, and in many, many cases would have resulted in a deficit in our trade account.

Accurate and realistic trade statistics on our imports and exports would make possible more responsible and responsive decisions on our Nation's foreign trade policy. It is imperative for the Congress to have the accurate facts at their disposal so they can regulate foreign commerce and preserve this Nation's economic well-being.

The adjustment assistance section of the Trade Expansion Act, providing for assistance to firms and workers has proven worthless, negated by the addition of the words "in major part." As a result there has not been a single case with an affirmative finding by the Tariff Commission since enactment of the law in 1962.

On behalf of the Stone, Glass and Clay Coordinating Committee, we urge legislation to regulate foreign trade and investment policy to restore the economic well-being of domestic industry and American workers.

I want to thank you for this opportunity to express our convictions before this Committee.

Mr. ULLMAN. Thank you, Mr. Chester.

Are there questions?

Mr. Collier.

Mr. COLLIER. May I ask, is the porcelain insulator business represented by your unions?

Mr. CHESTER. I would have to check.

Mr. REISER. We represent three plants in porcelain.

Mr. COLLIER. Is this business particularly affected by Japanese importation?

Mr. REISER. The large insulators are, and of course in that area of the smaller insulators, there are other products, like glass, and that, which has affected the volume of porcelain products.

Mr. COLLIER. May I ask, is tile also in your union?

Mr. REISER. That is right.

Mr. COLLIER. There has been some voluntary limitation of Japanese importation of tile, hasn't there?

Mr. REISER. Yes, sir, that is correct.

Mr. COLLIER. In order to preserve some part of the market for American producers?

Mr. REISER. Yes.

Mr. COLLIER. Do you know what percentage that is?

Mr. REISER. Well, no, I don't, because there seems to be not too much said about it. Somebody is afraid of rocking the boat, I think is what it is. Every time I seek some information, it is better not to say anything about it.

Now, we lost approximately 4,000 tile workers, that is, floor and wall tile, and it took 3 or 4 years to establish that they were dumping.

I think the recession in the building industry is what the tipoff was in the thing.

Now, I understand that agreements were reached on a self-imposed ceiling, and I don't know the increment, but as I understand it, it is predicated on the projected production of tile in the coming year, and this is a preestablished figure.

I understand a vulnerable part of that is that most of these projections are optimistic in their makeup, and this kind of gives a false result, but it is a whole lot better than what it was.

Mr. COLLIER. I understand the ceramic tile people were going to testify at these hearings, and they canceled. I wondered if you knew the reason.

Mr. REISER. This is a very low paid industry, about \$2.23 an hour, and we put in a modified form of a Scanlon plan, which is a scheme to reward the worker if he reduces his unit cost on labor.

We were continually increasing our production, but we couldn't get any yield from this formula. But since this agreement has been reached, we went up approximately 20 cents an hour in this Scanlon plan, so that the reaction was nearly immediate.

But the tragedy of it is that, under this assistance feature, there was no substance to it. Now, these some 4,000 workers are out and they haven't been retrained. They have received nothing, and, being a low paid industry, they have no pensions to speak of, because what money we had negotiated we put in across the board rather than in the fringes.

Mr. COLLIER. Thank you very much.

That is all, Mr. Chairman.

Mr. ULLMAN. Thank you very much.

Mr. CHESTER. Our whole panel, Mr. Chairman, will be testifying. We have been allotted so much time.

We had planned to start with Mr. Reiser, and then Mr. Thomas, and then Mr. Cornett, and then Mr. Barbaree, assisted by Mr. Lord.

Mr. ULLMAN. You may introduce each one, and proceed as you see fit. We will withhold questions until you are through.

Mr. CHESTER. Mr. Reiser will be first, of the United Glass & Ceramic Workers, the international president.

STATEMENT OF RALPH REISER

Mr. REISER. We have 42,000 members in our organization, 35,000 in the United States, and 7,000 in Canada. About 25,000 of our members in the United States, or more than half, are what has been called overexposed to some type of trade agreement.

In fact, we have been overexposed so long you might say we are pretty well done in the thing.

Of course, all these other side arrangements, agreements, and understandings result in loss of jobs to us. What we really want to talk about, not downgrading the importance of this assistance feature, is about our jobs, our own jobs, and we would like to see a type of tariff that would be flexible enough to provide for special problems of different industries.

Now, also, we are in a position that, come this fall, Pittsburgh Plate Glass—and I will address myself to the block glass industry—and Libbey-Owens-Ford Co. have built new plants in Canada, and they will be in full production in the fall.

Now, that means that they will come underneath the Canadian-American Automobile Act. Of course, this act did have an assistance program. However, it expired this month, I believe, and, if it isn't extended, we will get a zero on that one.

However, we are not too pessimistic about the Canadian situation, because we got a chance there to do a little work of our own, in negotiating equal pay, just as the United Automobile Workers have done.

However, in other phases of this, what we have been exposed to, what we really want, is a time element. What we really want is our jobs as glassworkers, and all we ask is a chance and time to adjust to new methods and new processes.

We need time to adjust to new processes of manufacturing flat glass, developed by foreign glass companies, because it so happens that in the flatglass industry, all the innovations, all the new methods, have been developed by foreign glass companies, and licensed by foreign glass companies.

We are willing to work our way out of this economic press, if we are only given a chance to compete.

In 1962 we asked President Kennedy for time to meet the flood of imports triggered by the new modern plants financed by the Marshall plan.

President Kennedy increased duties effective June 1962. Did we respond? We did.

Using the Federal Reserve Index, 1957-59 as 100, we increased our productivity to 167 by 1966, while during the same period our wages went up 17.5 percent, while the average earnings for all manufacturing went up 28.8 percent.

A good performance? Yes, but not good enough; for, in the meantime, Pilkington Bros. of England developed a new method for making glass. It is called float glass, that makes all the new plants built since the war obsolete. So it is a new ball game.

With the advent of float glass throughout the world, and some 34 licenses have been granted, the imports reacted dramatically, rising from 8.6 in 1966 to 13.6 in the first 6 months in 1967.

President Johnson, in October of last year, saw fit to keep into effect the relief that was granted in 1962 on single and double strength.

Now, just last week I was at Charleston and Shreveport, and Libbey-Owens-Ford has developed a new method called the air flotation process, which they believe may compete with thin glass as far as float is concerned.

Now, they gave the proposition to us that either we cut manpower, or they could build this plant overseas. In fact, I think I can say without hesitation that most of the flat glass that is supplied to the coastal cities is partly manufactured by Pittsburgh Plate or Libbey-Owens-Ford in their plants overseas, because again we are in the unenviable position that when the trade is favorable to the United States empty bottoms coming back, they put glass on, flat glass on as ballast, and it is practically a premium of getting glass as a ballast in the thing.

So that, as trade is favorable, this gives us an unfavorable reaction in the thing.

Now, we did cut off approximately 75 men in the process at Charleston and Shreveport. Now, Charleston, W. Va., isn't what you call a lush employment center. Now, our average earnings are \$3.65 an hour, and when you cut a guy out of the glass plant, he has to go over and work for \$1.80 an hour, and you have a pretty sore guy on your hands.

It took our local committees and our international representatives about 2 weeks to work this out. I went down there last week to report on it, and they said, "You guys weren't negotiating. You guys were waiting for Congress to pass a stiff gun law before you come back here to report," and in West Virginia, that is no outlandish statement.

Now, we believe that the fact that a new process has come into being, and Ford Motor Co. is going to build two more floats, that these things should be taken into consideration.

Now, we have pledged ourselves, and if I may, I will put in the record two booklets that we are going to give at our convention, in which we promise and in which we pledge ourselves to cooperate in the installation of new methods, full utilization of the work force, which is something new for our industry.

We are seeking through other organizations, like the coordinating committee, fair labor standards, although the more you dig into it, what fair labor standards are is pretty elusive in detail, but what they seem to imply—and we are getting active in the ICF, which is the trade secretariat that nearly all glass workers in the free part of the world belong to, and we are feeding them information.

I have accepted a cochairmanship on a committee—we are feeding them all the information, the imports, the prices that their manufacturers are receiving, to beef up their bargaining.

We are following the same type of our parallel organization, of the IMF, which is the automobile version of it.

I am sure that the recent increases that the workers in France got in the automobile factories came from some of the information and some of the activities triggered by the IMF committee, so that we are not looking on this in a defeatist attitude.

In principle, we believe in free trade, but we are asking for a break, or an adjustment.

We think that something could be arranged, that if the industry lagged in its productivity, if the exporter, the importer, don't come up in some of this fair labor or minimum wage deal, that these factors should be taken into account, allowing some kind of a workable incentive for the right to go into these markets.

In closing, I would like to read a news item which I ran across, and it is an article in Glass Review Monthly, "Glass Around the World."

I am not going to pronounce the companies, because I am not very good on pronunciation if it isn't German or Irish.

Future competition between the capitalist and communist flat glass industries was projected at a recent conference in Belgrade. Organized by the Yugoslav Glass Industries, Pancevo, the conference was attended by representatives of exporting organizations of several countries, including Razno Export (Soviet Union), Glas Export (Czechoslovakia), Mincks (Poland), Mineralimportexport (Rumania), Diaglass-Keramik (East Germany), Industriemport (Bulgaria), and Ferunion (Hungary).

Officials of the Yugoslav glass factory at Pancevo, and sheet glass factories in Lipik, Novo Mesto, and Zajeca, also attended the meeting. Representatives of the Yugoslav trade firms in charge of exporting flat glass, Hemikalija, Zagreb, and Kemijaimpex, Ljubljana, were present, too.

Coordination of production and merchandising of flat glass in all of the communist countries was long overdue. Domestic requirements of each country were evaluated and deliveries assigned to domestic facilities and neighboring countries.

In view of the ever-increasing exports of Eastern European flat glass to the West, the question of selling prices has become paramount. Because Pilkington

has granted licenses to Russia and Czechoslovakia, the problem of how to overcome the price disadvantage between the Fourcault drawn glass and the Pilkington process has to be solved.

In view of the concerted movement of the communist countries, it would seem mandatory for the flat glass industries of the West to get together as soon as possible in order to be better prepared for the coming battle for a share of the world's markets.

So it looks like the comrades are pretty well organized in this thing.

Mr. ULLMAN. We would hope you could keep your remarks brief, because we want to hear all the members, and you have already exceeded your time.

Mr. REISER. Thank you for listening to me.

(The material referred to follows:)

GLASS AROUND THE WORLD

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AUSTRIA

Austria's glass industry is hard hit by increasing competition not only from some Eastern European countries, but from Italy, one of its former main export outlets, as well. Shipments from the communist countries are usually sold at dumping prices and Italian quotations are extremely low. Austria points out that she considers the Italian quotations particularly damaging because Italian production capacity has almost doubled in recent years and presently exceeds requirements of the domestic market by 50 per cent.

Austria recently started production of insulating glass. Up to the middle of 1967, domestic factories could only supply one-third of Austrian requirements. Two-thirds had to be imported, primarily from Belgium, Germany, and France. In 1966, 5.72 million pounds (2.6 million kilograms) of insulating glass, valued at \$1.68 million (42 million Austria schillings), was delivered by foreign countries.

Austria has continuously complained about the imports of window glass from the communist countries at prices which are far below the existing Austrian price level. Because Austria has to trade with her neighbors, it is understandable that, in every new trade agreement, a certain amount of flat glass is included by Austria reluctantly.

A short while ago, the new trade agreement between Austria and Czechoslovakia, covering all of 1968, was signed. As usual, flat glass for special purposes and signal lights, as well as insulating glass, amounting to \$100,000, will be imported by Austria.

Starting January 1, Austrian glass wholesalers increased prices for flat glass up to 5/64-inch (2 millimeter) thick by a maximum of 3 per cent. All other thicknesses over 2 millimeter were upped by a maximum of 5 per cent.



GOLD AND THE NATIONAL ECONOMY

**A PLAN TO REGULATE FOREIGN TRADE AND INVESTMENT
POLICIES TO RESTORE THE ECONOMIC WELL-BEING OF
DOMESTIC INDUSTRY AND LABOR**

(3771)

FAIR INTERNATIONAL TRADE ACT

This is a bill that has now been introduced by 25 Congressmen to provide for regulation of imports in all industries. The bill provides for investigation and hearings by the Tariff Commission after filing of a petition for an import ceiling, such filing is open to a national labor union, industry, Senate Finance Committee, House Ways and Means, or request of the President. After investigation by the Tariff Commission if imports related to domestic consumption meet the criteria of the bill they certify a ceiling on imports to the President, the import ceiling is proclaimed by the President; if imports penetrate the ceiling proclaimed in any six-month period, a quantity limitation is invoked by the President.

There is considerable interest in this bill by industry, congressmen, and labor unions. We have collaborated on the bill and been successful in getting many introductions by congressmen who like the concept of a broad-base bill as opposed to specific industry bills. This is a real opportunity to help obtain passage of a bill which would prevent rising imports from displacing our employment and employment potential. The Chairman of Ways and Means, Wilbur Mills, is interested in this bill and suggested we get Congressman Herlong to introduce it which he did May 1, 1968. Following this introduction we have been able to get multiple introductions by the following Congressmen: Herlong, Fla. (16936), Utt, Calif. Collier, Ill., Perkins, Ky., Staggers, W. Va., Hechler, W. Va., Moore, W. Va., Dent, Pa. (17043), Whalley, Pa., Clark, Pa., Saylor, Pa., Ashbrook, Ohio, Thomson, Wis., O'konski, Wis., Fisher, Texas, Philbin, Mass., Hunt, N. J., Langen, Minn., Pelley, Wash., Baring, Nev., Barry, S. Dak., Harrison, Wyo., Lennon, No. Car., Kornegay, No. Car., Keith, Mass.

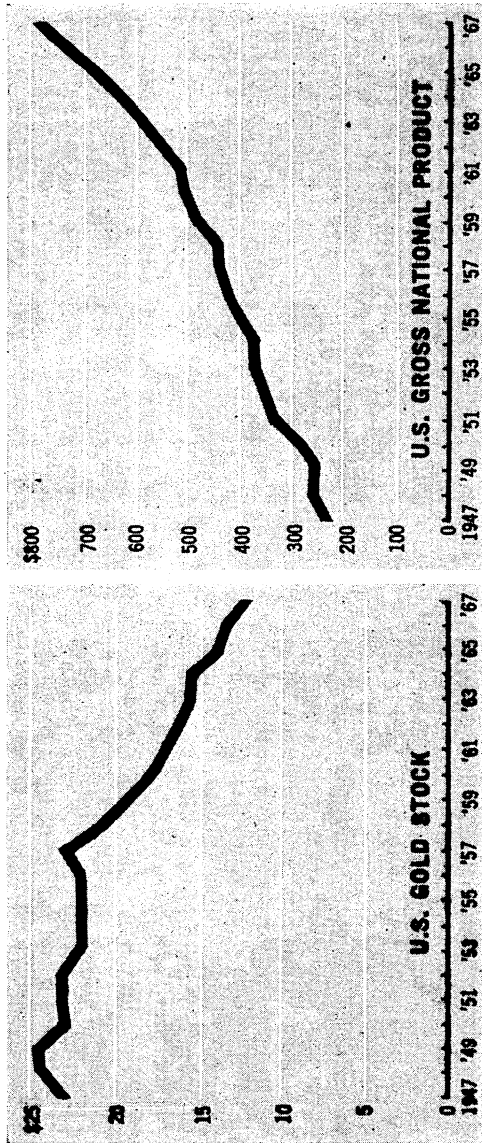
ECONOMIC TRENDS IN THE U. S. FLAT GLASS INDUSTRY

	AVERAGE 1958-60	TARIFF INCREASE 1962	PEAK YEAR 1965	TARIFF REDUCTION 1967 (annual rate)	% CHANGE 1958-60 to 1967
VALUE OF SHIPMENTS, ALL FLAT GLASS (in millions of dollars)	\$490.6	\$490.6	\$676.4	\$585.9	+19.4% -13.4%
of which -					
Sheet glass	111.1	126.4	140.6	116.5	+4.9% -17.1%
Plate, float, rolled & wire glass	157.1	159.5	213.7	190.4	+21.2% -10.9%
Laminated, specially tempered & other flat glass	222.4	204.7	322.1	279.0	+25.4% -13.4%
EMPLOYMENT (in thousands)	32.2	30.4	32.3	30.2	+6.2% -6.5%
AVERAGE WEEKLY HOURS, PROD. WKRS.	40.1	38.3	42.5	40.8	+1.7% -4.0%
AVERAGE HOURLY EARNINGS, PROD. WKRS.	\$3.09	\$3.29	\$3.52	\$3.63	+17.5% +3.1%
- Avg. Hourly Earnings, All Mfg.	\$2.19	\$2.39	\$2.61	\$2.82	+28.8% +8.0%
DOMESTIC MARKET (\$ millions)	\$538.6	\$542.9	\$720.6	\$636.6	+18.2% -11.7%
IMPORTS, f.o.b. U. S. port (\$ millions)	\$63.4	\$70.6	\$69.4	\$86.4	+36.3% +24.5%
EXPORTS, f.o.b. mill (\$ millions)	\$15.5	\$18.3	\$25.2	\$35.7	+130.3% +41.7%
of which, Canada (\$ millions)	\$10.1	\$12.0	\$15.8	\$23.6	+133.7% +49.4%
IMPORTS AS A % OF DOMESTIC MARKET	11.8%	13.0%	9.6%	13.6%	+15.3% +41.7%
EARNINGS PERFORMANCE:					
Net Profit After Taxes as a % of Sales (Sheet Glass)	4.9%	1.1%	4.8%	2.7% (1966)	-44.9% -43.8%
Gross Earnings, *All Flat Glass, as a % of Sales	35.8%	31.1%	38.1%	33.8%	-5.6% -11.3%

* Sales less payroll and materials purchases, before payment of overhead, depreciation, and taxes.

GOLD AND ECONOMIC GROWTH

While Gold Supply Declined, The National Economy Grew
1947 - 1967
(In Billions of Dollars)



Source of data: Economic Report of the President, 1968.

The recent gold crisis was blamed on everything from the Vietnam War and well heeled tourists to immigrants sending money back to the old country-- and every once in a while someone mentioned U. S. investments abroad to explain our deficit in the balance of payments.

Further, they have claimed the only effect on the average Joe would be that he would pay more for a gold filling, or wedding ring.

They say all that glistens is not gold. Neither can explanations hide the fact that private foreign investment results in the export of American jobs.

With the tremendous rise in private foreign investment of 454 percent between the years 1950 and 1966, this increased foreign capacity can only serve to decrease our exports and increase our imports, adding further distress to our balance of payments deficit.

The United States is importing products from U.S. foreign subsidiaries and affiliates of U.S. companies, in direct competition with their domestic operation or other domestic producers of the same product. In 1965 U.S. foreign affiliates exported products back to the U.S. totaling \$5,133 billion. Many of these affiliates have more workers employed abroad than they do in the U.S., and if not restricted this trend of decreasing exports, increasing imports and displacement of American industry and labor will continue.

PRIVATE FOREIGN INVESTMENTS

U.S. foreign investment -- and, as a substantial part of this category, U.S. private foreign investment -- must be given full consideration as an inseparable part of our foreign trade policy. The following Chart "A" will serve to show the astounding increases in our U.S. foreign investments; Chart "B" the area

distribution of U.S. direct private foreign investments; Chart "C" the industry distribution of U.S. direct private foreign investments. (The sources of information for Charts A, B and C were the 1958 Hearings by the Subcommittee on Private Foreign Investment, and the Department of Commerce Survey of Current Business, September, 1967.)

CHART "A"
United States Investments Abroad
(Millions of Dollars)

	1950	1957	1966
Total U.S. investments abroad	\$32,844	\$54,215	\$111,874
Private Investments	19,004	36,812	86,235
Long-term	17,483	33,588	75,565
Direct	11,788	25,252	54,562
Portfolio	5,700	8,336	21,003
Short-term	1,516	3,224	10,670
U.S. Government credits & claims	13,840	17,403	25,639
Long-term	13,518	15,548	21,182
Short-term	322	1,855	4,457

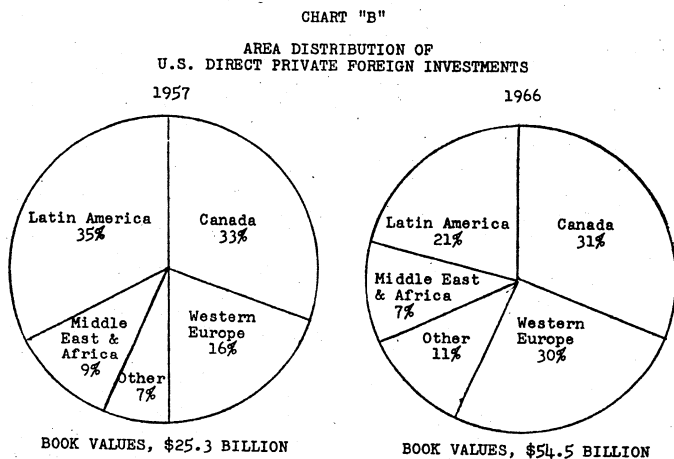
In Chart "A" we find that total U.S. investment abroad in 1966 has increased by practically four times the 1950 figure of \$32.8 billion. The large share of the 1966 total figure is made up of private investments, \$86.2 billion of the \$111.8 billion total for 1966.

The divisions of private investment are long-term meaning a period in excess of one year, and short-term. The book value of our various short-term private investments at the end of 1966 totaled \$10.6 billion.

Long-term private investments can be placed in two categories, portfolio and direct. Portfolio investment largely entails private ownership of foreign government bonds and business securities, with no implication in management decisions. Portfolio investment abroad in 1966 totaled \$21 billion.

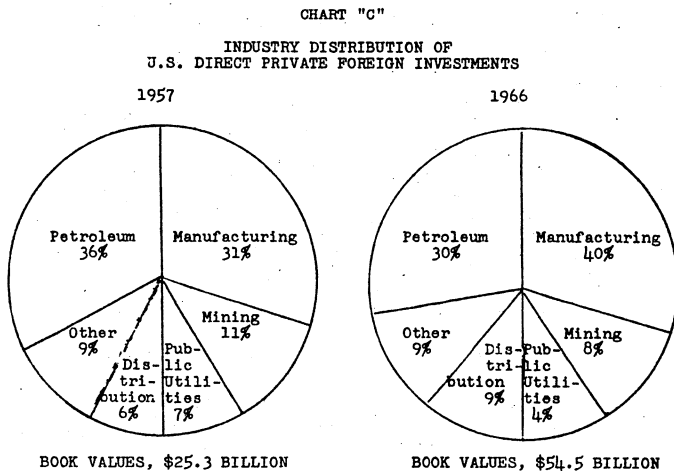
Direct foreign investment is ownership of 25 percent or more of a business and usually important management participation. Private direct foreign investments abroad in 1966 totaled \$54.5 billion.

In all divisions of private foreign investment, comparing 1950-1957-1966, there have been tremendous increases in the holdings of U.S. companies and private investors abroad.



In Chart "B" comparing the area distribution of direct private foreign investment for 1957 with 1966 we find that considerable went into Western Europe, with a 14 percent increase, so the investment flow is to the developed countries of Western Europe, while the less developed and under developed countries in Latin America, Africa and the Middle East dropped considerably in investments to their areas. And this happened despite the emphasis, stated in the 1958 hearings, on the necessity of changing the private investment pattern to encourage more flow to Latin America, Middle East and Africa to deter the Soviet economic offensive in those areas.

Chart "C" compares the industry distribution of U.S. direct private foreign investments in 1957 with 1966. You will note a strong upward thrust in manufacturing investment, a 9 percent increase over 1957, a decline in petroleum, mining and public utilities. Manufacturing leads all other industry investment with a 1966 foreign total of \$22 billion in all areas, while petroleum is in second place with \$16 billion.



The three charts which show the increases in U. S. private foreign investment bear out a prediction made by Mr. Robert M. Mitchell, Vice President of the Whirlpool Corporation, in Hearings held on the subject of private foreign investment by the Subcommittee on Foreign Trade Policy, December 1958. After Mr. Mitchell's testimony, questions were asked by Congressman John W. Byrnes:

"Mr. Byrnes: As I gather the basis of your concern here, among other things, is the fact that you foresee a necessity as far as American business is concerned to shift from an export business to manufacturing abroad, an investing and going through

the manufacturing process abroad; is that right?

Mr. Mitchell: That is correct, Mr. Byrnes.

Mr. Byrnes: Do you attribute that trend in part to this common Market trend, the European Common Market and the proposals for a common market in other areas? Is there any other factor that gives rise to that?

Mr. Mitchell: Basically that is it, Mr. Byrnes. In many of the Latin American countries at the moment for practical purposes it is impossible to export particularly consumer durable goods. There is a rising nationalism in many of these countries, and they are trying to industrialize, and to raise their standard of living. So that American companies, if they are going to have a part of that market at all, must invest in some form or other.

Mr. Byrnes: You don't see a great future then as far as the export of finished commodities from this country. You see that contracting, I gather, and an increase in manufacturing abroad and with foreign labor?

Mr. Mitchell: I think that is the way it will happen; yes, sir.

Mr. Byrnes: Great emphasis has been put on the fact of the importance of the trade-agreements program and all of the rest of it, and the increase in our exports, and the developing of this freer trade. I gather that you would suggest at least by your testimony that we may be getting into a period where that is going to be reversed?

Mr. Mitchell: I think that that is quite right, sir.

Mr. Byrnes: That is all."

This prediction of increasing investment abroad and the decrease in the export of finished commodities from this country has come to pass. This increased foreign capacity can only serve to decrease our exports and increase our imports, and since capital is mobile and labor is not, the result has been loss of American jobs and loss to those American industries that do not choose to move or that do not have capital to make such a move.

Many U.S. corporations are becoming global in their makeup, with vast holdings and assets in other nations. Consider that in 1950, in direct private foreign investment the U.S. had \$11.8 billion invested around the world, this rose to \$25.3 billion in 1957 and to \$54.5 billion in 1966. Many of these global corporations are showing their concern against any restriction to their access to the Canadian and U.S. markets. They recognize that free access to Canadian and U.S. markets is in their corporation interest; they want to invest abroad, enjoy the markets and low-wage labor; and they also want to enjoy the Canadian and U.S. market from abroad, in some cases in direct competition with their domestic operation or other domestic producers of the same product.

United States foreign manufacturing affiliates' sales in 1965 were \$42.4 billion compared to \$18.3 billion in 1957, for an increase of 132 per cent.

In 1965, \$34.7 billion of such sales were within the area of plant location, however, \$7.7 billion represented export sales to other countries, including the United States. The products shipped to the U.S. amounted to 24 percent of total export sales of manufacturing affiliates, or \$1.856 billion.

This figure does not include exports to the U.S. of foreign mining affiliates of U.S. firms in the amount of \$1.225 billion, nor does it include exports to the U.S. of petroleum and petroleum products.

by U. S. foreign petroleum affiliates, estimated at \$2,052 billion.

Combining manufacturing, mining and petroleum export sales to the U.S., by U.S. foreign affiliates in 1965, the total would be an astounding \$5.133 billion.

The time has come for a re-evaluation of this expanded investment program in terms of the U.S. economy, employment, outflow of capital, loss of revenue to the United States and effect of imports on U.S. industry and labor.

Our rising deficit in our balance of payments has brought this problem into focus and President Johnson has wisely issued mandatory restrictions on private foreign investment as of January 1, 1968. We heartily agree with his actions designed to preserve our country's financial strength.

INTERNATIONAL MONETARY FUND

We've all seen and had Canadian coins in our pocket change at one time or another and have encountered little or no trouble in spending the foreign currency as though it were our own. The same is true for U.S. coins in most of Canada.

But imagine trying to put our coins in a cigarette or coffee machine in Japan, Sweden, France, Italy, West Germany, Belgium or the Netherlands.

Yet these nations, along with the U.S., Canada and the United Kingdom are the Big 10 in foreign trade and account for 56 per cent of the voting power in the International Monetary Fund which boasts a total membership of 106 nations.

And if you want to do business with these or any of the other International Monetary Fund nations and

make the Kennedy rounds (GATT) work, you had better have some form of payment or exchangeable currency acceptable by the individual nations, backed up by adequate reserves.

Right now, however, the Free World's trading nations face the threat of running short of ready reserves of gold, U.S. dollars, other readily accepted currencies and credit. Some economists fear that a reserve shortage would put a severe crimp in world trade.

The most recent example of this is the devaluation of the pound sterling by Britain. Full effects of the devaluation may not be known for months but world governments began reacting instantly following Britain's decision. The same nations that have depended upon the pound sterling as a solid form of currency and reserve have now been asked through the IMF to loan the British government \$1.4 billion dollars in an effort to save the British economy, narrowing even further the number of world currencies that generally preserve and guarantee the others.

To remedy the reserve and credit shortage the Big 10 leaders in world trade and manufacturing have supported a contingency plan to create a new kind of international money that was presented to the 106 IMF nations at their recent 22nd annual meeting.

The technical name of the new money would be special drawing rights (SDR) from the IMF. Some experts loosely call it "Paper Gold." But whatever the name, each nation would get some of the new kind of money to add to its reserves.

If you think that the new "drawing rights" are like creating money out of thin air, you are right to a considerable extent.

But that doesn't mean that it is "funny money" -

because all of it will have the backing of the total resources of the 10 major nations as well as every other nation participating in its use.

The reason for creation of some new reserve asset is simple: There is a growing shortage of gold and dollars necessary to settle the trading balances among nations.

What is not so well understood is the mechanics of the new proposal. But this is not surprising: Nobody has tried to create money on this scale in the history of the world and many technical questions aren't yet settled.

Such a plan is crucial to the United States because for several years more dollars have been leaving the country in trade, aid and military and tourist spending than have been returning in expenditures by foreigners in the United States. In other words, the United States has a balance-of-payments deficit.

This means that many nations have built up huge reserves of U.S. dollars, which the United States is committed to redeem for gold upon demand. Thus, these claims.

In recent years however, the U.S. Gold supply had dwindled consistently as foreign central banks have sought to redeem their American dollar reserves for gold. The U.S. gold reserve stood at \$26 billion at the end of World War II, but it has been cut in half since then. During July alone it dropped another \$33,000,000 to \$13,136,000,000.

In an effort to cope with its balance-of-payments deficit, the United States has sought to slow its flow of dollars into the world economy. The result has been a reduction in Free World reserves, which are composed predominantly of U.S. dollars, as well as gold and other convertible currencies. At the

same time, the amount of gold in national reserves also has started to decline, largely because of private hoarding in Europe.

Some economists argue that these reductions are danger signals that could result in a slow-down in world trade. Thus they have argued that it's time to develop a contingency plan to add to world reserves.

France and some other nations, on the other hand argued that there was no shortage of reserves and that making it too easy for countries to continue having payment deficits might encourage loose fiscal practices and feed global inflation.

The debate continued for six years and was not resolved until the Big 10 settled on the special drawing rights formula.

Assuming approval by participating countries, the IMF would ration SDRs to each member country based roughly on economic size. In effect, each nation would get a free bond.

Of a hypothetical \$1 billion issue of SDRs the United States would be entitled to \$246,000,000. The United States could spend them directly in payment for surplus dollars held by another country if that country would accept them. However, nothing would prevent France, for example, from refusing to honor the SDRs as redemption for U.S. dollars; it could still demand gold.

If France didn't accept the SDRs the United States could turn the SDRs back to the IMF which would become a middleman and pick out another country with a fast-growing supply of dollars. Such a country would be obligated to take SDRs up to three times the size of its own allocation of SDRs. In exchange the United States would get a currency or currencies acceptable to France. In this way the United States

could redeem dollars without having to give up its gold.

If the 106 IMF nations approve the new money the IMF charter would have to be revised and approved through ratification by a majority of the member countries. It is doubted this can be accomplished before 1969.

Even though the new money is not assured, France has insisted on a weighted vote by the IMF representatives that will require 85 percent approval. The weighted vote gives the Common Market countries a bloc vote that could veto any issuance of the SDRs. Previously the United States had enough power in a single vote to block IMF action on a large percentage vote, the United States being entitled to a weighted vote of 24.59 percent.

And France, for one, has not indicated that its convinced more reserves are necessary. It has agreed only to the contingency plan.

In other words the IMF would be unlikely to propose the creation of new reserves unless the big powers shared a universal feeling that there was a need.

But for the U.S., Canada, Britain and those among the Continentals who agreed that the time has come to provide a new reserve asset to rank along with gold and dollars, the SDR agreement appears to be a great victory.

It seems to assure that those who speculated in gold by hoarding or buying gold stock have met a spectacular defeat. Those who had hoped the existing monetary system would fail, necessitating a big hike in the price of gold, have made a bad guess.

Mr. CHESTER. Mr. Victor Thomas, of the United Cement, Lime, & Gypsum Workers.

STATEMENT OF VICTOR THOMAS

Mr. THOMAS. Mr. Chairman and members of the committee, I am Victor H. Thomas, fifth general vice president of the United Cement, Lime, & Gypsum Workers, AFL-CIO.

I would like to thank the chairman and this committee for giving me the opportunity to express the views of my union on several pending proposals relating to the International Antidumping Code, and the Antidumping Act of 1921.

I have submitted a written statement with tables attached setting forth these views in full. At this time I would like to present only a brief summary of our position.

My union is concerned primarily with the particular unfair trade practice which has been all too prevalent in the importation of cement in the United States.

This is the unfair trade practice known as dumping, a practice under which foreign manufacturers of cement dump their excess production in the United States at prices greatly reduced below their own home market prices.

Dumping is condemned by our domestic laws, most importantly by the Antidumping Act of 1921. The effectiveness of this act, limited as it is in protecting domestic industry and workers from the effects of this unfair trade practice, would be seriously undermined by the proposed International Antidumping Code negotiated during the past year in Geneva, and by the regulations proposed by the Treasury to implement this code.

There was no authority for the negotiation of this code in the 1962 Trade Expansion Act, and its promulgation as an executive agreement would encroach and undermine the proper authority of the Congress to determine our domestic laws by substantially amending the provisions of the 1921 act.

Thus, I appear on behalf of my union to strongly urge this committee and the Congress to prevent the International Dumping Code from becoming effective without congressional approval.

Specifically, we urge this committee to report favorably on House Concurrent Resolution 447, and to support its passage by the Congress prior to July 1, 1968, when the code is scheduled to become effective.

The reason why the dumping of imports is of such concern to the members of my union are fully set forth in my written statement, and in the testimony of Mr. John Mundt on behalf of the cement industries committee for tariff and antidumping, presented to this committee on June 14, 1968.

During the last 10 years, workers in the domestic cement industries have continually been seriously affected by the dumping of foreign cement in the United States.

On two previous occasions, I have sought to bring this unfair and illegal situation to the attention of those concerned here in the Congress. The first time was during the August 1961, hearings before the House Committee on Education and Labor, the General Subcom-

mittee on Labor, on the impact of imports and exports on unemployment.

The second time was during the September and October 1966, hearings of that same subcommittee on the effect of imports and exports on American labor.

Such efforts were in support of legislation to strengthen the Anti-dumping Act of 1921.

Representatives of the cement industries have also pursued the currently available remedies in a series of proceedings under the act, which have involved no less than 15 foreign countries over the last 10 years.

It is most important that our ability to deal with these recurring instances of dumped imports, with substantial amounts of employment and unemployment caused thereby will not be undermined by implementation of the International Antidumping Code.

My union feels that the new code procedures for combating such dumping would inevitably and substantially increase the exposure of workers in general, and our members in particular, to lost jobs in the underemployment as a result of dumping.

This would be particularly true in the cement industry, which under the new code provisions could hardly ever expect to qualify as a regional industry, therefore exposing our members working along the gulf coast, the east coast, and the Great Lakes to meet loss of jobs without ever satisfying the new very difficult code standards for finding injury to a domestic industry.

We also particularly object to the fact that the new provisions do away with any effective interim relief while an investigation takes place.

Our experience has been that such investigations take anywhere from 6 to 18 months, a period of time during which domestic workers can well be, and often have been, entirely thrown out of work.

Even though the eventual result of the legal jousting is to find that injurious dumping has been taking place, once again, this is a highly unfair, intolerable, vulnerable position into which to place American workers.

The unrealistic standards and complex procedures of determining injury under the International Anti-Dumping Code are unhappily similar to the provisions for determining injury now contained in the adjustment assistance section of the 1962 Trade Expansion Act.

As you know, no American worker has ever successfully petitioned for relief under these provisions.

In his message of May 28, 1968, the President has recommended that these sections be amended, and that the relief be substantially broadened, so that it would be available to all American workers whenever imports are a substantial cause of injury.

It is difficult for my union to understand why we should allow standards for relief under the antidumping laws to become more limited and less available at the same time that we are trying to liberalize these adjustment assistance provisions.

Most important of all, such steps should never be taken without the regular or due consideration of Congress.

Once again, we urgently request this committee to support House Concurrent Resolution 447, and to oppose any weakening of our domestic unfair trade practice laws.

Thank you for your time and indulgence.
(Mr. Thomas' prepared statement follows:)

STATEMENT OF VICTOR H. THOMAS, GENERAL VICE PRESIDENT, UNITED CEMENT,
LIME, AND GYPSUM WORKERS' INTERNATIONAL UNION, AFL-CIO

I am Victor H. Thomas, 5th General Vice President of the United Cement, Lime & Gypsum Workers' International Union, AFL-CIO. I would like to thank the Chairman and this Committee for giving me the opportunity to express the views of my union on several pending proposals relating to the International Antidumping Code and the Antidumping Act of 1921.

My union has long been concerned with the injury which American workers have sustained as a result of the international unfair trade practice known as "dumping", especially as it has affected those employed in the domestic cement industry. On two previous occasions I have sought to bring this serious and unfair situation to the attention of those concerned here in the Congress. The first time was during the August, 1961 hearings before the House Committee on Education and Labor, General Subcommittee on Labor, on the impact of imports and exports on employment. The second time was during the September and October, 1966 hearings of that same Subcommittee on the impact of imports and exports on American labor. On both of these occasions I filed statements dealing at some length with recurring instances of dumped imports of foreign cement and with the substantial amount of unemployment and underemployment caused thereby to American workers and to members of my union. I would like to incorporate by reference both my 1961 statement and my 1966 statement for consideration now by this Committee. I would also like to bring this testimony up-to-date and to emphasize these problems again, as they continue unabated.

The dumping of cement into the domestic market is fully described and thoroughly documented in the statement which was submitted to the Committee in these hearings on June 14, 1968 by the Cement Industry Committee for Tariff and Antidumping and in the statements previously presented by the Cement Industry Committee and by its counsel, Covington & Burling, in the 1961 and 1966 hearings. My union feels that the extended and continual legal proceedings in which the cement companies have engaged over the years in an attempt to halt such dumping constitute a more than adequate effort by the industry to keep it free of such unfair trade practices. If our domestic legislation were adequate, these efforts would have been effective and the legitimate interests of American workers in not losing jobs as the result of the unfair competitive practices of foreign companies would have been protected. The record makes it apparent, however, that such efforts were not effective, and both domestic industry and labor continue to suffer serious injury.

In order to bring home the seriousness of the situation, I would like to refer to a series of five tables presented in the 1966 hearings by Covington & Burling as counsel to the Cement Industry Committee. For the convenience of the Committee I have attached to my testimony copies of these tables, revised to make them current and to reflect the most recent import statistics of the Department of Commerce, Bureau of International Commerce, U.S. Trade Section.

Table I is a list of the antidumping proceedings filed by the domestic industry against imports from no less than 15 foreign countries during the years 1958-1967. Table II records the amount of foreign cement imported from these "dumpers" during the same period. Table III shows how much this unfair competition has hurt our critical balance of payments position. These figures were computed by adding to the F.O.B. value of the imports (as recorded by the Commerce Department from U.S. Customs duty valuation certificates) an additional factor of 10% to cover freight and insurance, which is also uniformly purchased from overseas firms. Addition of the 10% factor for these items is in accordance with the report of the U.S. Tariff Commission, "C.I.F. Value of U.S. Imports", February 7, 1967. Using the latest Bureau of Labor Statistics figures on productivity in the domestic cement industry (5.97 barrels per man hour in 1966 and 6.27 barrels per man hour in 1967), Table IV translates these unfairly lost sales into man hours lost for domestic workers. Finally, using average domestic cement industry wage rates (\$3.97 per hour in 1966 and \$4.27 per hour in 1967), Table V shows the amounts of wages by which American labor has been unfairly deprived as a result of the dumped and tainted imports.

I would like to call the Committee's attention particularly to the figures in Tables IV and V. These tables show that American labor has lost well over 7 million man hours during the 1958-1967 period, an average of more than 700,000 man hours per year. Similarly, the equivalent wages lost have amounted to over \$24,000,000, an average of almost \$2.5 million a year. Surely American labor should not have to sustain such drastic injury from an importing practice that has been condemned as an unfair method of competition not only by the United States Congress but also by Article VI of GATT.

For these reasons my union strongly endorses and supports the position of the Cement Industry Committee in these hearings that the relief from dumping practices now available under the Antidumping Act of 1921, limited as it is, surely should not be further restricted by implementation of the International Anti-dumping Code and by the new implementing regulations issued by the Treasury Department to become effective on July 1. My union feels that these new procedures for combating the dumping of foreign imports would inevitably and substantially increase the exposure of American workers in general, and our members in particular, to lost jobs and underemployment as a result of dumping.

This would be particularly true in the cement industry, which under the new provisions could hardly ever expect to qualify as a regional industry, therefore exposing our members working along the Gulf Coast, the East Coast, and the Great Lakes to complete loss of jobs without ever satisfying the new, very difficult Code standards for finding injury to a domestic industry. We also particularly object to the fact that the new provisions do away with any effective interim relief while an investigation of injury takes place. Our experience has been that such investigations take anywhere from 6 to 18 months, a period of time during which domestic workers can well be, and often have been, entirely thrown out of work, even though the eventual result of the legal jousting is to find that injurious dumping has taken place. Once again, this is a highly unfair and intolerably vulnerable position in which to place American workers.

The unrealistic standards and mixed procedures for determining injury under the provisions of the International Antidumping Code are unhappily similar to the provisions for determining injury now contained in the adjustment assistance sections of the 1962 Trade Expansion Act. As you know, no American workers have

TABLE I

Country of exportation	Date of formal complaint	Treasury initial finding of reason to believe or suspect dumping	Nature of final determination by treasury department or Tariff Commission
Belgium.....	Oct. 2, 1959	Yes.....	Treasury found dumping and Tariff found injury to the domestic industry.
Canada.....	May 28, 1959	Yes.....	Treasury found dumping, but Tariff found no injury to the domestic industry in part because continuation of dumped sales seemed unlikely.
Colombia.....	Sep. 25, 1959	No.....	Treasury found no dumping.
Denmark.....	Apr. 28, 1960	Yes.....	Treasury found dumping but did not refer it to Tariff partly because of cessation of shipments.
Dominican Republic.....	Aug. 19, 1961	Yes.....	Treasury found dumping, but Tariff found no injury at the time to the domestic industry.
	May 4, 1962	Yes.....	Treasury found dumping and Tariff found injury to the domestic industry.
Israel.....	July 21, 1959	Yes.....	Treasury found no dumping partly because of a non-cost-justified quantity discount allowance.
Italy.....	June 7, 1962	No.....	Treasury found no dumping.
Japan.....	Dec. 1, 1961	None.....	Treasury found dumping but did not refer to Tariff partly because of assurances by the producer that dumping would not be resumed.
	Feb. 5, 1963	Yes.....	Treasury found dumping, but Tariff found no injury to the domestic industry.
	Aug. 26, 1965	No.....	Treasury found no dumping.
Norway.....	Sep. 15, 1958	Yes.....	Treasury found no dumping solely because of a non-cost-justified quantity discount allowance.
	Dec. 27, 1961	Yes.....	Do.
Poland.....	Dec. 29, 1960	Yes.....	Treasury found no dumping, but used a 3d-country price and not Polish as home market price.
Portugal.....	June 9, 1960	Yes.....	Treasury found dumping and Tariff found injury to the domestic industry.
Sweden.....	Nov. 25, 1958	Yes.....	Do.
Tunisia.....	Sep. 13, 1960	No.....	Treasury found dumping but did not refer it to Tariff on assurances by the producers that dumping would not be resumed.
West Germany.....	Aug. 13, 1959	Yes.....	Do.
Yugoslavia.....	Aug. 28, 1961	Yes.....	Do.

TABLE II.—DUMPED OR "TAINTED" CEMENT IMPORTS, 1958-67 (BILLIONS OF BARRELS)¹

Year	Canada	Belgium	Sweden	West Germany	Colombia	Norway	Poland	Israel	Italy	Yugoslavia	Dominican Republic	Tunisia	Japan (white cement)	Portugal	Denmark	Total
1958	657,100	410,800	339,900	325,100	473,900	335,600	68,500	58,200	---	47,500	7,500	---	---	---	192,800	2,916,900
1959	1,491,200	581,400	280,700	578,600	791,400	454,400	42,000	349,000	---	67,400	---	---	---	---	129,800	4,765,900
1960	868,700	326,200	289,600	51,400	537,000	310,200	243,700	---	---	58,800	111,100	85,400	---	290,800	---	3,172,900
1961	1,221,800	89,500	29,000	17,900	513,300	721,500	206,900	---	24,200	49,100	439,600	---	58,900	---	---	3,371,700
1962	1,170,100	445,100	117,600	314,800	584,200	1,162,500	144,900	420,000	188,900	16,400	292,200	---	60,500	---	---	4,917,200
1963	1,485,200	110,800	254,000	28,800	378,500	919,000	---	300,000	---	20,600	29,600	---	52,300	---	---	3,578,800
1964	1,399,300	41,400	51,200	17,400	540,000	949,700	---	---	---	23,100	---	---	54,900	---	---	3,077,100
1965	1,431,600	17,400	---	15,500	623,700	954,300	---	---	---	17,100	---	---	64,700	---	---	3,124,500
1966	2,118,200	18,700	---	19,300	479,400	1,004,300	---	---	---	23,200	---	---	66,500	---	43	3,729,643
1967	1,692,600	12,400	37,200	13,800	444,100	---	---	---	---	16,200	---	---	52,300	---	---	2,268,600
Total...	13,535,800	2,053,700	1,399,400	1,382,600	5,365,500	6,811,500	706,000	1,127,200	213,100	339,400	880,000	85,400	410,100	290,800	322,643	34,923,243

¹ Excludes clinker and white cement (except Japan).

TABLE III.—DOLLAR OUTFLOW

Year	Canada	Belgium	Sweden	West Germany	Colombia	Norway	Poland	Israel	Italy	Yugoslavia	Dominican Republic	Tunisia	Japan (white cement)	Portugal	Denmark	Total
1958	1,314,200	821,600	679,800	650,200	947,800	671,200	137,000	116,400	---	95,000	15,000	---	---	---	385,600	5,833,800
1959	2,982,400	1,162,800	561,400	1,157,200	1,582,800	908,800	84,000	698,000	---	134,800	---	---	---	---	259,600	9,531,800
1960	1,737,400	652,400	579,200	102,800	1,074,000	620,400	497,400	---	---	117,600	222,200	1,218,614	222,455	414,844	---	6,812,014
1961	2,443,600	179,000	58,000	35,800	1,026,600	1,443,000	413,800	840,000	48,400	98,200	879,200	---	207,705	---	---	6,848,055
1962	2,340,200	890,200	235,200	629,600	1,168,400	2,325,000	289,800	600,000	---	32,800	584,400	---	175,185	---	---	10,335,989
1963	2,970,400	221,600	508,000	57,600	757,000	1,835,668	---	---	---	41,200	59,200	---	249,629	---	---	7,228,185
1964	3,868,490	116,998	95,000	171,106	1,197,551	1,925,668	---	---	---	159,996	---	---	393,872	---	---	6,407,625
1965	3,810,544	46,251	3,948	139,489	1,327,246	2,140,715	---	---	---	99,417	---	---	318,586	---	---	6,488,689
1966	5,902,380	49,270	---	199,275	1,052,598	2,178,829	---	---	---	177,538	---	---	318,586	---	3,581	9,882,057
1967	4,496,148	32,569	67,824	143,986	1,031,029	---	---	---	---	130,282	---	---	238,836	---	---	12,042,522
Total...	31,865,762	4,172,688	278,372	3,287,056	11,165,024	14,052,612	1,412,000	2,254,400	426,200	1,086,833	1,760,000	1,218,614	1,716,268	414,844	648,781	81,410,736

TABLE IV.—MAN-HOURS LOST

Year	Canada	Belgium	Sweden	West Germany	Colombia	Norway	Poland	Israel	Italy	Yugoslavia	Dominican Republic	Tunisia	Japan	Portugal	Denmark	Total
1958	169,356	105,876	87,603	83,789	122,139	86,495	17,655	15,000	-----	12,242	1,933	-----	-----	-----	49,691	751,779
1959	344,388	134,273	64,827	133,626	182,771	104,942	9,700	80,601	-----	15,566	-----	-----	-----	-----	29,977	1,100,671
1960	202,494	76,037	67,505	111,981	125,175	72,308	56,807	-----	-----	13,706	25,937	19,912	-----	-----	-----	1,100,671
1961	290,214	21,259	6,888	4,252	121,824	171,378	49,145	-----	5,748	11,663	100,118	-----	13,991	67,785	-----	800,880
1962	242,759	92,344	24,338	65,311	121,203	241,183	30,062	87,137	39,191	3,403	60,622	-----	12,552	-----	-----	1,020,163
1963	290,078	21,641	49,609	5,625	73,626	179,492	-----	58,594	-----	4,278	5,781	-----	10,215	-----	-----	698,984
1964	259,130	7,667	9,482	3,222	100,000	175,870	-----	-----	-----	3,000	-----	-----	10,185	-----	-----	589,834
1965	251,158	3,053	35	2,719	109,421	167,421	-----	-----	-----	3,886	-----	-----	11,331	-----	-----	548,158
1966	354,807	3,132	-----	2,233	80,302	168,224	-----	-----	-----	2,584	-----	-----	11,139	-----	7	624,730
1967	269,952	1,928	5,933	2,201	70,829	-----	-----	-----	-----	-----	-----	-----	8,341	-----	-----	361,768
Total	2,879,293	467,210	316,280	315,859	1,107,710	1,367,313	163,369	241,332	44,939	74,351	198,651	19,912	77,774	67,785	79,675	7,148,811

TABLE V.—EQUIVALENT WAGES LOST

Year	Canada	Belgium	Sweden	West Germany	Colombia	Norway	Poland	Israel	Italy	Yugoslavia	Dominican Republic	Tunisia	Japan	Portugal	Denmark	Total
1958	457,260	285,866	236,528	226,229	329,775	233,536	47,667	40,500	-----	33,054	5,219	-----	-----	-----	134,165	2,029,791
1959	988,393	385,362	186,053	383,506	524,554	301,184	27,838	231,323	-----	44,674	-----	-----	-----	-----	86,034	3,158,924
1960	619,632	232,674	206,567	36,663	383,034	221,261	173,827	-----	-----	41,941	79,246	609,307	44,491	207,422	-----	2,811,579
1961	922,879	67,603	21,905	13,520	387,718	544,981	156,280	288,423	18,279	37,087	332,049	-----	41,541	-----	-----	2,546,792
1962	803,533	305,659	80,758	216,180	401,182	798,314	99,505	200,976	129,721	11,262	200,660	-----	35,037	-----	-----	3,376,738
1963	994,967	74,227	170,160	19,293	253,565	615,658	-----	-----	-----	13,800	19,829	-----	35,749	-----	-----	2,397,512
1964	909,544	26,910	33,280	11,309	351,000	617,305	-----	-----	-----	15,015	-----	-----	35,749	-----	-----	2,000,112
1965	929,284	11,294	-----	10,061	404,857	619,457	-----	-----	-----	11,100	-----	-----	41,999	-----	-----	2,028,181
1966	1,408,584	12,434	25,334	9,398	318,799	667,849	-----	-----	-----	15,427	-----	-----	44,222	-----	28	2,480,178
1967	1,152,695	8,233	-----	-----	302,440	-----	-----	-----	-----	11,034	-----	-----	35,616	-----	-----	1,544,760
Total	9,186,771	1,424,157	960,714	938,994	3,656,924	4,619,545	505,117	761,222	148,000	234,394	637,003	609,307	278,655	207,422	220,227	24,167,135

ever successfully petitioned for relief under those provisions. In his message of May 28, 1968, the President has recommended that these sections be amended and that relief be substantially broadened so that it would be available to American workers whenever increased imports are a substantial cause of injury. It is difficult for my union to understand why we should allow the standards for relief under the antidumping laws to become more limited and less available at the same time that we are trying to liberalize these adjustment assistance provisions.

For these reasons, on behalf of my union I strongly urge this Committee to give immediate support to House Concurrent Resolution 447 and Senate Concurrent Resolution 38, which express the sense of Congress that the Code should be submitted for legislative consideration prior to its becoming effective in this Country. Surely the representatives of American workers should be given the opportunity to express their views on such an important change in our domestic fair trade laws, laws which so directly affect the welfare of these workers, under the normal procedures of the legislative process. To allow the new Code provisions to take effect without careful deliberation under regular legislative procedures would amount to an unfair and unlawful by-passing of Congressional functions.

Mr. CHESTER. Mr. Hollan Cornett, of the United Stone & Allied Products Workers.

STATEMENT OF HOLLAN CORNETT

Mr. CORNETT. Mr. Chairman and members of the committee, the largest part of my job with this union consists of representing the workers of the six operating companies with potash plants in the Carlsbad, N. Mex., area.

I am here today to plead with you gentlemen to give these workers some protection from the scourge of potash imports which is rapidly changing them from workers making a decent living wage to recipients of unemployment insurance and public welfare.

In the prepared written statement that I have submitted to you are tables relating the facts on potash production and the increases of imports into the United States, along with exhibits showing the actual factors of what is happening to the union members of our local unions, as well as other unions made up of the workers of the domestic potash industry, and what is happening to the economy of Carlsbad and the State of New Mexico.

I am not going to belabor the facts and figures; they are all before you, and I urge you to study them thoroughly.

What I really want to impress upon you is the human side of the story, for I am convinced that we here in the United States have a moral obligation to our own citizens that should take precedence over the attitude and well-being of other countries.

This is not just a problem for Carlsbad, N. Mex., and members of our union. Even though the majority of domestic potash production comes from New Mexico, there are producers in California, Utah, and Idaho. They too, have suffered because of the increase in imports from Canada and other countries.

The United States enjoys a generally high standard of living, with high salaries and high taxes. These high taxes give all foreign potash producers, especially Canada, an artificial advantage over the domestic producer.

Canada is by far the largest exporter of potash to the United States. Most of the U.S. producers of potash have established plants in Canada, and gain further advantage of a 5-year moratorium on taxes by establishing Canadian operations.

This will change, once the domestic producers are eliminated.

As the tables will show you, a great deal of these imports come from West Germany, France, and Spain. The operations in those countries are controlled by a cartel, who have for years threatened the domestic producers with price cuts.

They have, during the past couple of years, carried out this threat. They have sold potash right here in the United States at a price much lower than even they can produce the product.

I am sure the farmers are quite glad to be able to buy potash at these temporarily reduced prices. The cartel and the foreign producers will raise their prices after domestic production is eliminated, to a point where they will be more than compensated for their temporary losses.

The U.S. farmer will pay much more in the long run for this fertilizer.

But what about the workers who are being forced out of work by this cartel, and Canadian imports?

During the last 12 months, one Carlsbad producer has closed their operation down completely, putting over 850 workers out of work.

IMCC has reduced their work force by over 50 percent, putting over 450 more workers out of work.

Duval Corp. closed down one mine and laid off 50 workers.

Potash Co. of America just laid off an additional 75 workers last month.

All together, we have, during the last 12 months, had over 1,480 workers put out of work in the Carlsbad area, because of potash imports.

Most of these now unemployed workers are over 50 years old, they only know one trade, potash mining. It is very late in their life to retrain them for other jobs. Even if it were possible to retrain them, there are no jobs available for them in the Carlsbad area.

Gentlemen, in the western part of the United States, there are many old mining industry ghost towns. Some are long forgotten, others are used somewhat as a tourist attraction.

Carlsbad, N. Mex., is rapidly becoming such a town. It will be a modern version of a ghost town, with real live ghosts being fed at the expense of the American taxpayer.

We will have a few tourists stopping in town to view the vacant buildings and to talk to the citizens about the good old days when the mines were operating, as they make their way to the Carlsbad Caverns.

It does not have to be this way. Something can be done to protect the life of the domestic potash industry, by putting a stop to the imports of potash.

This is a vital, basic industry, one which the United States cannot afford to lose, or to let foreign powers gain complete control of. This is just what is going to happen, if we are not successful in obtaining reasonable quotas on the imports of potash.

You gentlemen are our only hope. You, the U.S. Congress, are the only body that can give us the protection that we need.

I beg of you gentlemen not to put the high-sounding theory of free world trade, or the friendship of foreign countries, above the welfare of the U.S. citizens who work in our domestic potash industry.

I thank you.

(Mr. Cornett's prepared statement follows:)

STATEMENT OF HOLLAN CORNETT, EXECUTIVE BOARD MEMBER, UNITED STONE AND ALLIED PRODUCTS WORKERS OF AMERICA, AFL-CIO

The United States potash industry has suffered disastrous setbacks in the last several years. It faces virtual annihilation in the immediate future. The question is not one of margin of profit as is faced in many other industries in the United States but whether or not its very existence can be continued under the present and foreseeable circumstances.

The following tables are attached as exhibits to this statement being the best information available through the year 1966. The first table shows potash operations in Canada. Table 2 shows United States domestic consumption of potash. Table 3 shows United States domestic production capacity. Table 4 shows United States imports of potash from Canada and other countries. Table 5 shows Canadian consumption of potash. Table 6 is world wide potash production capability vs. consumption, estimated through the year 1971.

Present production of potash in the United States is roughly equal to the consumption in the United States and the domestic potential is sufficient to provide for the estimated annual increased use of potash for many years to come. Accurate figures are difficult to obtain covering United States consumption up to date, however, it does appear apparent that potash will be in increased use in the United States as well as in many foreign countries.

The cost of actual production in the United States is comparable to the cost of production in other countries with the difference in competitive positions being determined by cheaper labor and principally artificial tax advantages held by foreign producers. There are no natural advantages held by foreign producers.

Potash shipped from West Germany, France and Spain is controlled by a cartel who can fix prices regardless of costs and who have deliberately undercut, even below their own costs, the price of potash being delivered to the United States and for other economic reasons are able to sustain the loss suffered in potash shipments. The Canadian producers were given approximately five years tax moratorium as an inducement to expend huge sums of capital investment in Canada. The Canadian mines are of much higher grade potash, however, being located at a considerably greater depth than the potash in the Carlsbad area and requiring several times the capital investment, do not have too great an advantage excepting as to taxes over the United States producers.

Canadian imports have risen from less than one percent domestic consumption in 1960 and 1961 to over thirty two per cent of domestic consumption in 1966. Total foreign imports have risen from nine percent of domestic consumption in 1960 to over thirty eight per cent in 1966. Nineteen sixty seven and 1968 figures are not available, however the trend is certainly established and is continuing. The loss of this industry in the Carlsbad area only, to the United States in employment is shown by exhibits attached from several of the local unions and the local employment service. The human cost is unmeasureable because many of the men now in their fifties who have spent 25 years in this particular industry have no place to go with their training. The city of Carlsbad has dropped in population as shown by attached water and electric meter readings and mail count. The depression created is further evidenced from the Credit Bureau's reports on comparable periods of foreclosures filed.

The potash industry in the year 1966 paid total taxes in excess of \$10,000,000.00. It is respectfully submitted unless action is taken by this committee restricting foreign imports, especially Canadian, the industry in the United States will disappear with terrific hardship on those immediately involved and the entire country will suffer ultimately with control of this vital basic product being delivered into the hands of foreign producers.

TABLE 1.—BOX SCORE OF POTASH OPERATIONS IN CANADA ¹

	Output (tons per year)	Capital cost	Production start	Shafts
Operating:				
International M. & C., K-1.....	2,000,000	\$65,000,000	September 1962.....	1
Kalium Chemicals.....	600,000	50,000,000	September 1964.....	None
Potash Co. of America.....	600,000	45,000,000	April 1965.....	1
Total, operating.....	3,200,000	160,000,000		
Under construction:				
Allan Potash.....	1,500,000	70,000,000	Summer 1967.....	2
Alwinal Potash.....	1,000,000	50,000,000	Early 1968.....	1
Cominco Potash.....	1,200,000	65,000,000	Late 1969.....	2
Duval Corp.....	1,000,000	63,000,000	Early 1969.....	2
International M. & C., K-2.....	1,500,000	60,000,000	Early 1967.....	1
Noranda Potash.....	1,200,000	73,000,000	Early 1969.....	2
Southwest Potash.....	1,500,000	60,000,000	Early 1970.....	2
Total, under construction.....	8,900,000	441,000,000		
Total.....	12,100,000	601,000,000		

¹ The Northern Miner, July 14, 1966.

Note: Potash Co. of America is planning a second shaft on which work is to commence early next year. International Minerals & Chemical Corp.'s K-1 and K-2 shafts connect underground. Alwinal Potash expects to start sinking a second shaft shortly after production attained.

TABLE 2.—U.S. DOMESTIC CONSUMPTION OF POTASH

Year	Product (tons (KC1) ¹)	K ₂ O (tons) ²	Change over prior year (percent)
1960.....		2,119,397	(3)
1961.....	3,911,896	2,054,097	-3.1
1962.....	4,248,931	2,342,876	+14.1
1963.....	4,293,141	2,645,040	+12.9
1964.....	4,820,741	2,935,989	+11.0
1965.....	4,692,760	3,141,856	+7.0
1966.....	4,931,686	3,810,531	+21.3
Total.....	26,898,155	19,049,786	

¹ Measured in terms of the mineral known as potassium chloride KC1. Source for figures is the Atchison, Topeka & Santa Fe RR.

² Measured in terms of the oxide content (K₂O). Pure sylvite, or pure muriate of potash, contains 63.2 percent of K₂O. Mining companies strive for a product containing a minimum of 95 percent sylvite (KC1) which then contains over 60 percent K₂O equivalent, the usual minimum standard. Source for figures is the American Potash Institute.

Note: Average increase per year over base year of 1960 averages 13 percent per year.

TABLE 3.—U.S. domestic production capacity of potash ¹

Year:	K ₂ O ¹ tons
1960-64.....	2,800,000
1965.....	2,875,000
1966.....	3,400,000

¹ USDA publication "The Fertilizer Situation, 1963-64, 1964-65, 1965-66" (production capacity for 1960 through 1963 assumed to have been the same as 1964). The published figures have been reduced by 200,000 K₂O tons to reflect the net production capacity of K₂O as potassium chloride.

TABLE 4.—U.S. IMPORTS OF POTASH¹
CANADA

Year	KCl (tons) ²	K ₂ O (tons) ³	Percent of domestic consumption
1960.....	6,717	4,030	(4)
1961.....	3	2	(4)
1962.....	76,395	45,819	2
1963.....	563,344	338,006	13
1964.....	837,357	502,414	17
1965.....	1,485,148	891,089	28
1966.....	2,015,838	1,209,503	32
OTHER IMPORTS			
1960.....	321,992	193,195	9
1961.....	331,901	199,141	10
1962.....	386,734	232,040	10
1963.....	313,192	187,915	7
1964.....	358,360	215,016	7
1965.....	295,133	177,080	6
1966.....	366,383	219,830	6
TOTAL IMPORTS			
1960.....	328,709	197,225	9
1961.....	331,904	199,143	10
1962.....	463,129	277,859	11
1963.....	876,536	525,921	20
1964.....	1,195,717	717,430	24
1965.....	1,780,281	1,068,169	34
1966.....	2,382,221	1,429,333	38
Total.....	7,358,497	4,415,080	⁵ 23

¹ American Potash Institute.² Measured in terms of the mineral known as potassium chloride (KCl).³ Measured in terms of the oxide content (K₂O). Pure sylvite, or pure muriate of potash, contains 63.2 percent of K₂O. Mining companies strive for a product containing a minimum of 95 percent sylvite (KCl) which then contains over 60 percent K₂O equivalent, the usual minimum standard.⁴ Less than 1 percent.⁵ Over the 7 years from 1960 to 1966, the total imports of K₂O into the United States averaged approximately 23 percent of our domestic consumption for those 7 years.TABLE 5.—Canadian consumption of potash¹

Year:	K ₂ O ² tons
1960.....	100,880
1961.....	105,951
1962.....	105,282
1963.....	121,909
1964.....	154,663
1965.....	185,021
1966.....	197,162

¹ American Potash Institute.² Measured in terms of the oxide content (K₂O). Pure sylvite, or pure muriate of potash, contains 63.2 percent of K₂O. Mining companies strive for a product containing a minimum of 95 percent sylvite (KCl) which then contains over 60 percent K₂O equivalent, the usual minimum standard.

TABLE 6.—WORLDWIDE POTASH PRODUCTION CAPABILITY VERSUS CONSUMPTION

Year	World production capability (including Carlsbad production) ¹	World consumption ¹	Excess capability over consumption ¹	Carlsbad production capability (estimated)
1960.....	8,500,000	8,500,000	None	4,200,000
1961.....	9,500,000	9,500,000	None	4,200,000
1962.....	10,000,000	10,000,000	None	4,200,000
1963.....	10,500,000	10,500,000	None	4,200,000
1964.....	12,000,000	12,000,000	None	4,200,000
1965.....	13,000,000	13,000,000	None	4,500,000
1966.....	15,000,000	14,000,000	1,000,000	5,100,000
1967.....	16,000,000	15,000,000	1,000,000	(2)
1968.....	17,000,000	15,000,000	1,800,000	(2)
1969.....	18,800,000	16,000,000	2,500,000	(2)
1970.....	20,500,000	17,000,000	3,500,000	(2)
1971.....	25,000,000	18,500,000	6,500,000	6,500,000

¹ Chemical Week, July 2, 1966. Measured in terms of the mineral known as potassium chloride (KCl). Pure sylvite, or pure muriate of potash, contains 63.2 percent of K₂O the oxide content. Mining companies strive for a product containing a minimum of 95 percent sylvite (KCl) which then contains over 60 percent (K₂) equivalent, the usual minimum standard.

² Not available.

TOTAL NUMBER OF MEN REPRESENTED BY USAPWA, AFL-CIO AT THE FOLLOWING MINES IN THE CARLSBAD POTASH BASIN FROM JANUARY 1965 TO JUNE 1968, MEMBERS AND NONMEMBERS INCLUDED

January 1965

Local	Plant	Members	Nonmembers	Total
177	PCA and NPC.....	473	8	-----
179	U.S. Borax.....	271	10	-----
181	SWP.....	359	0	-----
183	Duval.....	249	8	-----
188	IMCC.....	86	636	-----
Total.....		1,438	662	2,098

June 1965

177	PCA and NPC.....	487	8	-----
179	U.S. Borax.....	270	10	-----
181	SWP.....	351	0	-----
183	Duval.....	273	8	-----
188	IMCC.....	135	577	-----
Total.....		1,516	602	2,118

January 1966

177	PCA and NPC.....	498	8	-----
179	U.S. Borax.....	270	10	-----
181	SWP.....	348	0	-----
183	Duval.....	278	8	-----
188	IMCC.....	175	437	-----
Total.....		1,569	463	2,032

June 1966

177	PCA and NPC.....	497	8	-----
179	U.S. Borax.....	278	10	-----
181	SWP.....	345	0	-----
183	Duval.....	270	6	-----
188	IMCC.....	166	436	-----
Total.....		1,556	450	2,006

**TOTAL NUMBER OF MEN REPRESENTED BY USAPWA, AFL-CIO AT THE FOLLOWING MINES IN THE CARLSBAD POT-
ASH BASIN FROM JANUARY 1965 TO JUNE 1968, MEMBERS AND NONMEMBERS INCLUDED—Continued**

January 1967

Local	Plant	Members	Nonmembers	Total
177	PCA and NPC.....	500	8	-----
179	U.S. Borax.....	278	10	-----
181	SWP.....	352	20	-----
183	Duval.....	280	6	-----
188	IMCC.....	161	427	-----
Total.....		1,571	451	2,022

June 1967

177	PCA and NPC.....	501	8	-----
179	U.S. Borax.....	281	10	-----
181	SWP.....	348	0	-----
183	Duval.....	282	6	-----
188	IMCC.....	163	459	-----
Total.....		1,575	483	2,058

January 1968

177	PCA.....	308	8	-----
178	NPC.....	185	0	-----
179	U.S. Borax.....	7	0	-----
181	SWP.....	370	0	-----
183	Duval.....	243	6	-----
188	IMCC.....	81	325	-----
Total.....		1,194	339	1,533

June 1968

177	PCA.....	252	8	-----
178	NPC.....	189	0	-----
179	U.S. Borax.....	6	0	-----
181	SWP.....	336	0	-----
183	Duval.....	244	6	-----
188	IMCC.....	60	315	-----
Total.....		1,087	329	1,416

JUNE 18, 1968.

Mr. HOLLAN CORNETT,
*International Representative, United Stone and Allied Products Workers of
America, Carlsbad, N. Mex.*

DEAR HOLLAN : In response to your request of how my membership at the local
potash mines has fluctuated, is as follows :

January 1967 :

U.S. Borax.....	140
PCA.....	54
Duval.....	34
Total.....	228

June 1967 :

U.S. Borax.....	140
PCA.....	54
Duval.....	34
Total.....	228

January 1968 :

U.S. Borax.....	2
PCA.....	54
Duval.....	30
Total.....	86

June 1968:

U.S. Borax-----	2
PCA -----	54
Duval -----	24
Total -----	80

In 1967 we had 228 members working in the potash mines. Today we have 80 members working in the mines.

If I can be of any other help, please call on me.

Sincerely,

W. R. EADS,
Business Manager, Local No. 703, I.B. of E.W.

CAVERN CITY LOCAL 1124,
INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS,
Carlsbad, N. Mex.

HOLLAN CORNETT:

DEAR SIR: Active membership from 1965, 300 members; 1966, 295 members; 1967, 291 members; 1968, 13 members.

These members were working till Nov. 10 1967 when Company shut down operations at refinery, The U.S. Borax & Chemical Co. Potash Division.

REX KEEN,
Financial Secretary.

JUNE 19, 1968.

#1912 I.A.M.

1965, 110 Members
1966, 108 Members
1967, 105 Members
1968, 1 Member

To whom it may concern:

Listed above is the active membership of International Association of Machinists & Aerospace Workers Permian Basin Lodge #1912, located at Carlsbad, New Mexico, on the given dates.

The above information is true to the best of my knowledge and belief.

H. A. GREEN, President.

EMPLOYMENT SECURITY COMMISSION,
NEW MEXICO EMPLOYMENT SERVICE,
Carlsbad, N. Mex.

To Whom It May Concern:

Due to the installation of highly mechanized and larger equipment in an effort to become more competitive in the potash market, there were reductions in labor forces for several years by the potash industries in the Carlsbad, New Mexico, area. More recently, the potash companies have stated that they have been having difficulty in competing with the foreign markets which resulted in the closing of one of the major firms.

The area eventually became one of substantial unemployment and on September 21, 1967, it was classified as a "Redevelopment Area" under Section 401(a)(4) of the Public Works and Economic Development Act of 1965. Criteria for a designated area is clearly specified in this Act. Statements used in determining the designation of Carlsbad as a Redevelopment Area should be on file with the Federal Government prior to the date of designation. Such documents describe the conditions in this area at that time, which was prior to the closing of one of the major potash industries in November of 1967.

HAROLD R. CONWAY,
Manager, Carlsbad Local Office.

CITY OF CARLSBAD,
POTASH CAPITAL OF THE WORLD,
Carlsbad, N. Mex., June 18, 1968.

To Whom It May Concern:

Below is listed the number of water meters in service in the City of Carlsbad by six months intervals since January 1, 1965. The information is directly related to the economic situation in Carlsbad that has resulted in a large number of people leaving the area because of unemployment.

Date	Number of operating meters	Date	Number of operating meters
Jan. 1, 1965.....	7,451	July 1, 1965.....	7,470
Jan. 1, 1966.....	7,419	July 1, 1966.....	7,453
Jan. 1, 1967.....	7,321	July 1, 1967.....	7,295
Jan. 1, 1968.....	6,996	June 1, 1968.....	6,943

CHARLES R. GRIGG,
Water and Sewer Superintendent.

SOUTHWESTERN PUBLIC SERVICE CO.,
Carlsbad, N. Mex., June 19, 1968.

To Whom It May Concern:

A check of our records indicates the following meter count taken at six month intervals for Carlsbad, New Mexico, beginning with January, 1966.

January 1966.....	10,633
June 1966.....	10,762
January 1967.....	10,531
June 1967.....	10,639
January 1968.....	10,267
June 1968.....	10,066

W. K. ROTAN.

CREDIT BUREAU OF CARLSBAD,
Carlsbad, N. Mex., June 18, 1968.

To Whom It May Concern:

Upon request, I have examined our records and find that the following number of Mortgage Foreclosure Suits have been filed in Eddy County during the first five months of each of the past three years, as listed below.

1966.....	27
1967.....	30
1968.....	70

W. R. MIDDLETON, *Owner.*

POTASH TAXES PAID TO STATE OF NEW MEXICO IN 1966

Local and State taxes and royalties borne by the potash industry total more than 10 million dollars annually. For the calendar year 1966, the potash industry paid the following amounts:

Gross receipts tax (on sales).....	\$802,905
Sales Tax (on purchases).....	758,306
Compensating tax (on purchases).....	143,862
Ad Valorem tax.....	2,079,476
Royalties.....	5,066,891
Mineral lease.....	500,821
Occupation tax.....	25,842
State income tax.....	212,741
Severance tax.....	497,498
Total	10,088,342

Mr. CHESTER. Mr. George Barbaree, assisted by Mr. Lord.

STATEMENTS OF GEORGE R. BARBAREE AND ROBERT LORD

Mr. BARBAREE. Mr. Chairman and members of the committee, my name is George R. Barbaree. I am international secretary-treasurer of the International Brotherhood of Operative Potters, AFL-CIO.

On behalf of our union and its membership, I thank you for giving of your time to listen to our views regarding the serious impact that the present import policy has, and is having, on the pottery industry, and more specifically the earthenware dinnerware potteries, where our members are employed.

We have prepared some charts to emphasize to you the reduction in shipments from the U.S. Pottery Association, and the corresponding unemployment that was a result of the reduction in man-hours worked due to the continued increase in foreign imports during the years from 1947 to 1967.

The black line on the chart shows that 27,293,281 dozen of earthenware was shipped in 1947, and that with the exception of the years 1958 through 1962, there has been a steady decline, with only 7,737,549 dozen being shipped in 1967, or a reduction in dozens shipped of over 70 percent.

The blue line, representing man-hours worked during the same period, reflects an almost parallel decline, dropping from 25,681,758 hours worked in 1947, to 5,297,424 hours worked in 1967, or a loss of over 75 percent.

The red line depicts the continued rise in imports during this same period, from approximately 2 million dozen in 1947 to approximately 25 million in 1967.

As a result of this invasion of the domestic market by unfair foreign dinnerware imports, the next chart shows that our members employed in the industry declined from approximately 12,000 in 1947 to 3,599 in 1967, or a loss in job opportunity of 70 percent.

From 1953 to 1967, 18 dinnerware potteries affiliated with the U.S. Potters Association in various States have been forced out of business because of being unable to compete with these foreign imports produced with low-wage rates.

Other plants under contract with our union, and not members of the USPA, also have gone out of business.

The financial plight of our industry can in no way be attributed to unreasonable wage or fringe demands by the union.

As a matter of fact, the union has had to recognize the import problem, and temper its demands accordingly.

The average hourly earnings in union potteries are approximately 60 cents per hour below the national averages for all manufacturers.

If our union members had not restrained their demands, there would be no pottery manufacturers remaining today.

Not only has cheap foreign imports caused numerous losses of jobs to American potters, but they are causing the standard of living of the remaining pottery workers to be lowered substantially.

In view of the above facts, it therefore becomes imperative for Congress to pass legislation to restrict this unfair foreign competition, so that a vital domestic industry, providing jobs for American workers,

will not be completely destroyed by products made with unreasonably low wages in foreign countries.

We therefore respectfully request that you support H.R. 16936, entitled the Fair International Trade Act, introduced by Congressman Sydney Herlong of Florida.

Mr. FULTON (presiding). Thank you, sir.

Mr. CHESTER. That finishes our testimony, Mr. Chairman.

If there are any questions, we will stand ready to answer them.

Mr. BYRNES. Some of the witnesses emphasized adjustment assistance. It is my impression that most of your workers are rather highly skilled. Am I wrong in that, or not?

Mr. CHESTER. In some cases, Mr. Byrnes. In the flat glass industry, it is probably the highest paid of all of our affiliates.

Mr. BYRNES. I am talking principally of the training that is required, and the fundamental skills that the normal worker has to attain.

Mr. CHESTER. I think they could probably address themselves to that question.

On flat glass, they have skills, and P. and M., production and maintenance workers.

Mr. REISER. In flat glass, most of that is mechanized equipment, and during the war they stepped right into the ammunitions.

Mr. BYRNES. Then adjustment assistance can be of some help.

It seems to me that where you have higher skills—which I assume you have in the pottery, chinaware production—trying to acquire another skill through new training is not a very satisfactory solution to the problem.

Mr. BARBAREE. And also the average age in the potteries is very high. Because of the decline in job opportunities, we have not been attracting young people.

Mr. BYRNES. That is true in flat glass?

Mr. REISER. Well, yes. It takes nearly 12 to 15 years to even hold on to a labor job, because if it wasn't for our early retirement systems, at age 62, we would be in real trouble.

Now, about the training, most of our plants are in small towns, and the people at that age are hesitant to leave, if they do get the chance.

Mr. BYRNES. You have to move someplace else.

One of my colleagues made the remark that someone said that you people want a break. We thought that that was a bad word to use if you were in the glass business, so maybe we could find a little different phrase.

Mr. REISER. It is an ill wind that doesn't blow somebody some good. When they break them, we make them.

Mr. BYRNES. Thank you very much.

Mr. FULTON. Congressman Burke?

Mr. BURKE. Do any of you gentlemen represent the workers employed in the stonecutting industry, the granite industry?

Mr. CHESTER. The Stone and Allied Products Workers represent them.

Mr. CORNETT. I do.

Mr. BURKE. I know in Quincy, Mass., where they have the Quincy granite, they find it very difficult to get new workers into this trade.

Most of the oldtimers are immigrants from Italy, doing the polish work and the sculpture work.

Mr. CORNETT. I think that is true all over the New England States, in the granite and marble industry.

I am primarily concerned with the union in the western part of the United States, in the potash, and don't know much about the New England stone part.

I do know they are having problems getting people to go in and take the training and learn the jobs. They are not interested in being quarry men and stone polishers, as their forefathers were. In that part of the industry, there again, in age bracket, the people are quite old, most of them.

Mr. BURKE. I was wondering what the industry was doing about developing workers to take the place of these older men.

Mr. CORNETT. They are setting up training programs under the various Government programs that they get assistance through to train people in that area.

Mr. BURKE. I understand that in some of these buildings erected in Washington in recent years, they had to import stonecutters and stone masons to do some of the work.

Mr. FULTON. We certainly thank each of you gentlemen.

Our next witness is Mr. Golden.

Gentlemen, we welcome you to appear before the committee, and will you identify yourselves for the record.

STATEMENT OF DAVID A. GOLDEN, CUSTOMS AND TARIFF COUNSEL, UNITED STATES POTTERS ASSOCIATION; ACCOMPANIED BY JOSEPH M. WELLS, JR., AND JOHN T. HALL

Mr. GOLDEN. Mr. Chairman and members of the committee, my name is David A. Golden, and I am the customs and tariff counsel for the U.S. Potters Association.

At the outset, I would like to say that we wholly subscribe to and endorse the remarks just made by Mr. Barbaree, who is the secretary-treasurer of the International Brotherhood of Operative Potters, and I may also state that it is refreshing, at least in this industry, to see labor joining with management in seeking some sort of relief for this industry.

Also, I would like to state that all the remarks made by me are limited to earthenware dinnerware, which is manufactured by the Potters Association members.

Now, on my left is Mr. Joseph M. Wells, Jr., vice president of the Homer Laughlin China Co., of Newell, W. Va., and on my right is Mr. John T. Hall, president of the Hall China Co., of East Liverpool, Ohio.

I am not going to read my statement, Mr. Chairman and gentlemen. However, I do request that it be printed in the record along with the statement that we are making now.

Mr. FULTON. Without objection, it will be done.

Mr. GOLDEN. The first thing that I would like to talk about is the tariff adjustment assistance program.

Under the Trade Expansion Act of 1962, as you gentlemen well know, the criteria for relief were changed by Congress from that under the old Trade Expansion Act of 1951.

I was the first one who fell under the ax of the investigation by the Tariff Commission under the new criteria, as expounded in the 1962 act.

As a matter of fact, the Potters Association filed a petition for relief in 1962, in August, and before the case was decided, the new act went into effect, and we were caught under the new criteria.

Obviously, as you well know, we did not get the relief, and at the time we felt pretty badly about it, although the Tariff Commission found that we were injured, and imports were coming in, and we were being injured by them, but since the other 20 applications that have been filed subsequent to ours received the same treatment, we are in pretty good company.

Now, it is the administration's proposal under the new act, the Trade Expansion Act of 1968, to change the criteria as affecting individual firms and workers. It does not intend to change the criteria affecting industries, and, gentlemen, I submit that to do that would be a mere nullity.

What good would it do if you are going to give a worker increased benefits, or retrain him, or relocate him, or give an individual firm long-term loans at low interest, or reductions in taxes, or whatever the case may be, if the industry goes out of business?

Now, you just asked the gentlemen that preceded me about the skill of the workers, and the training of the workers, and so on. Fine. You are going to give them the assistance, which is economic, but you are not going to save the industry, and again, as the President in his recommendations urged the Congress to do certain things, I strongly urge that if you change the criteria under the trade adjustment assistance program, to affect or to help individual firms and workers, you do the same for the industry.

I may also pose this: It is possible, if you do not change the criteria affecting industries, that an individual firm, an industry and workers may come in and file petitions affecting the same industry.

Using the same evidence, the same facts, you will give relief to the firm and to the workers, and the industry will get no relief on the same basis, facts, law, or whatever may be involved.

If you change it, whereby all of them will come under the same criteria, and again I submit all I mean is the industry, the firm, and the worker, then they will qualify under the criteria announced by Congress, and relief will be given, if it so meets the criteria.

Again, I strongly urge that, if you change the criteria, you include also the industry.

Another thing—and this I am firmly opposed to—is granting to the President further authority to reduce duties on imports. And I believe there the administration has put itself in an untenable position.

The administration wants the authority to further reduce duties, or to use that unused portion under the Kennedy round, for the next 2 years, until 1970.

This industry is very, very vulnerable by that. By that I mean we have received reduction under the Kennedy round, except in one in-

stance, where the negotiators culled out a new category, which appears in the tariff schedules of the United States as though no reduction had been given to this particular cull-out of the odd sections of the tariff schedules, so that at the present time they would be susceptible to a full 50 percent cut.

And for that category, we believe it is the category containing the largest amount of imports, and where the industry is hurt to the greatest extent.

Now, the untenable position of the administration is this: The Administration says that—

We want that authority because—

And let me quote from page 2 of this committee's proposed Trade Expansion Act of 1968:

For example, the United States may find it necessary to increase the duty on a particular article as the result of an escape clause action or a statutory change in tariff classification.

On the next page they say:

The escape clause action hasn't worked. We are going to change it.

Now, if it hasn't worked, why does the President need authority to increase rates of duty because of the compensatory rates that we may have to give another country under the escape clause actions?

They can't be on both sides. They cannot say the same thing.

Then he says "a statutory change in tariff classification."

If there is a statutory change in tariff classification, that means Congress passes a statute.

If Congress sees fit in a particular statute to increase the rate of duty on a particular item, in the same statute, they can decrease the rate of duty on a particular item, why does the President at this time need further authority to continue the unused portions of the Kennedy round authority that was given to him in 1962?

Again, I repeat this industry is very, very vulnerable to anything along those lines.

Furthermore, I am naive enough, and I believe that the reductions made under the Kennedy round were based on the economics of this country.

When Ambassador Roth's office and other negotiators to GATT sat down and polled all the information, they came to the conclusion that the maximum cut we can give on that article, this article, so on down the line, were those reductions which the industry could stand.

I believe that. If that is the case, then why does the President want at this time, or need at this time, authority to further reduce the rate of duty?

I say that there should be anywhere from 3 to 5 years waiting period to see the effect of the Kennedy round reductions before we go into anything else.

Another area I would like to explore is the omnibus bill, or across-the-board quotas.

Now, this committee is very well aware, much more than I am, of the number of quota bills that are thrown into the hopper. Some come out, and some do not.

If there was an omnibus bill in which Congress had set out a stated policy and criteria, any industry which met that criteria and is in-

jured and makes the overt step of seeking relief should get relief without coming in and filing a quota bill and having to appear before the Ways and Means Committee and the Senate Finance Committee, and all the other governmental agencies before he is granted the relief.

Again, whatever the announced criteria is, which Congress may impose, if it is a fair one, and a workable one, I don't think anyone is disadvantaged. No one is hurt.

Quotas in that sense is not a dirty word. The Congress can state what kind of quotas they shall be, whether absolute, and I do not favor absolute quotas, but it can be a limited quota whereby so much can come in at a reduced rate, and not a complete cutoff, but so many more hundreds or thousands or millions of dollars or commodities at an increased rate of duty.

I think that is fair, workable, simple, and helps both industry, knowing they can do it, and helps Congress, by saying, "You qualify under the quota," or, "You don't."

There is your relief, rather than the individual quota bills on which the administration has come down here time after time and said, "Don't do it. They are going to retaliate. Every time that anything happens along those lines, there is going to be retaliation."

Maybe there will, and maybe there won't. I don't know, but that gets to be worn a little thin, also.

Any questions that the committee may have along the lines of the skill or the workers or the numbers or the amounts involved, Mr. Wells and Mr. Hall will be more than happy to answer anything that the committee may have.

Gentlemen, I want to thank you for the opportunity to appear before you, and to state our position.

(Mr. Golden's prepared statement follows:)

Re: Trade Expansion Act of 1968, H.R. 17551

STATEMENT OF DAVID A. GOLDEN, CUSTOMS AND TARIFF COUNSEL, UNITED STATES POTTERS ASSOCIATION

My name is David A. Golden and I am an attorney associated with the firm of Lamb & Lerch, located at 25 Broadway, New York, New York, 10004. I am Tariff and Customs Counsel to the United States Potters Association, located in East Liverpool, Ohio.

The United States Potters Association is one of the older trade associations in the United States having its beginning in 1875. At the present time the Association having its beginning on 1875. At the present time the Association is comprised of six active members and approximately 25 associate members. All of the active members are producers of earthenware dinnerware. These six plants represent about 70% of the dollars and approximately 60% of the dozen of the domestic production in this field. The six active members are: Canonsburg Pottery Co., Canonsburg, Pa., 15317; The Hall China Co., East Liverpool, Ohio 43920; The Harker China Co., East Liverpool, Ohio, 43920; The Homer Laughlin China Co., Newell, W. Va., 26050; Royal China, Inc., Sebring, Ohio, 44672; The Taylor, Smith & Taylor Co., East Liverpool, Ohio, 43920.

TO LIBERALIZE ADJUSTMENT ASSISTANCE CRITERIA FOR FIRMS AND WORKERS WITHOUT
LIBERALIZING THE ESCAPE CLAUSE PROCEDURES FOR DOMESTIC INDUSTRIES WOULD BE
LESS THAN A NULLITY

A. History Of The Escape Clause

From the beginning of the Trade Agreements Program there has been concern that as a result of a decrease in import restrictions there would be such an increase in imports as to seriously injure or to threaten serious injury to domestic

manufacturers. When the President was given authority in 1934 to reduce import restrictions he committed himself to use the authority in such manner as not to injure sound and important American industries. However, in administering the Trade Agreements Act it soon became apparent that some domestic industries would be seriously injured. An "escape clause" was, therefore, included in trade agreements which permitted the United States to withdraw a concession under certain conditions.

The Trade Agreements Extension Act of 1951 for the first time had an "escape clause" procedure provided for by statute (Sec. 7). This provision in substance held that the Tariff Commission should investigate all escape clause applications; impose a time limit for the investigation; and allowed an actual as well as a relative increase in imports to satisfy the procedural criteria. The Tariff Commission pursuant to the investigation then had to determine if as a result in whole or in part of concessions granted, imports of the article under investigation were being imported into the United States in such increased quantities, either actual or relative, as to cause, or threaten, serious injury to the domestic industry producing like or directly competitive products. Section 7 of the Trade Extension Act of 1951 was re-enacted in 1955 and 1958. It lasted until 1962.

B. Application Of The Escape Clause

Under Section 7 of the Trade Extension Act of 1951 (and its re-enactment) 113 investigations were completed by the Tariff Commission. Of that number of investigations the Tariff Commission found that in 33 investigations the criteria for injury was met by the domestic industry and recommended to the President that relief be granted; in 8 investigations the Tariff Commissioners were divided as to their findings and therefore, the cases had to be referred to the President for disposition; and 72 cases were dismissed by the Tariff Commission on the grounds that the domestic industries did not meet the criteria set up by Congress for relief.

Of the 41 investigations referred to the President, 15 were granted relief pursuant to the statute and 26 were denied relief.

C. Changes Made in The Present Act (Trade Expansion Act of 1962). From Section 7 Of The Trade Agreement Extension Act of 1951

In the Trade Expansion Act of 1962 Congress enacted a sweeping reorganization of safeguard procedure which among other things made a form of relief available to groups not covered by earlier acts, such as individual firms and employees of injured industries. Under the 1962 Act the President could provide relief in cases of injury to an industry, firm or workers by withdrawing, or modifying the concession or he may grant trade adjustment assistance such as loans, tax relief and technical assistance. During the debates in Congress on the 1962 legislation it was held out to labor as an inducement for the passage of the Act that individual groups of workers, not provided for under previous legislation could obtain trade adjustment assistance.

However, in addition to the attempted beneficial changes made by the 1962 Act, the criteria for "injury" was changed which change made it impossible for domestic industries, firms or individuals to get any trade adjustment assistance.

Before the Commission can make an affirmative finding under section 301 (b) (1) of the Trade Expansion Act of 1962, it must determine (1) that the imports in question are entering the United States in increased quantities; (2) that the increased imports are a result in *major* part of trade agreement concessions; and (3) that such increased imports have been the *major* factor in causing or threatening to cause, serious injury to the domestic industry concerned. If the Commission finds in the negative with respect to any one of these three requisites, it is foreclosed from making an affirmative finding for the industry.

D. Impossibility of Qualifying for Relief Under Present Criteria

Since the drastic change made by Congress in the Act of 1962 in determining the criteria for injury to be found by the Tariff Commission before relief can be secured by an industry, firm or individual, *not one petition was found to have met that criteria.* From the enactment of the 1962 Trade Expansion Act to date, domestic industries have filed 10 petitions with the Tariff Commission for investigation and trade adjustment assistance; domestic firms have filed 6 petitions and workers have filed 5 petitions. In all, 21 petitions have been filed and as previously stated the *Tariff Commission has not made an affirmative finding in any.*

E. The United States Potters Association Was One of the Many Domestic Industries Denied Relief After an Escape Clause Hearing by the Tariff Commission Under the Present Criteria

An excellent example of relief denied under the present escape clause criteria is the petition filed by myself on behalf of the United States Potters Association. It was the first case which came before the Tariff Commission for relief under the Trade Expansion Act of 1962. As a matter of fact the petition was filed under Section 7 of the Trade Agreement Extension Act of 1951 as amended, and the hearings were also held under the provisions of the act. However, before the Tariff Commission could render its findings the Trade Expansion Act of 1962 was passed and, therefore, this petition had to be adjudicated under the new act with its changed criteria for "injury".

The Commission found that there was an upward trend of imports of earthenware tableware and kitchen articles and that such earthenware "is being imported * * * in * * * increased quantities" within the meaning of the Trade Expansion Act (Page 4—Report to the President on Investigation No. 7-114—TEA-1-2). They also found (in one category) that the significant increase in imports occurred years after the duty reductions were made, hence the duty reductions could not be the major cause of the increased imports.

The Tariff Commission stated that 15 domestic producers of earthenware had ceased production, 8 of which terminated production in the period 1957-1961. Production declined from 30 million dozen pieces in 1954 to 26.8 million dozen pieces in 1957 and to 22.1 million pieces in 1958; production then increased to 24.4 million dozen pieces in 1959 and declined to 21.6 million dozen pieces in 1961. In all of the years 1957 through 1961, dinnerware accounted for more than 98 per cent of the total quantity of earthenware produced. Sales of household earthen dinnerware by domestic producers declined from 26.4 million dozen pieces valued at \$57.1 million in 1957, to 23.0 million dozen pieces valued at \$48.4 million in 1961. During 1958-60 the average annual imports were 17 per cent greater than 1955-57, and in the 2 year period 1961-2, they were 11 per cent greater than in 1958-60. Imports of earthenware amounted to 6.5 million dozen pieces in 1957, increased to 9.2 million dozen pieces in 1960. Estimated imports of earthenware dinnerware rose from 2.5 million dozen pieces in 1957 to 4.3 million dozen pieces in 1960, then to 3.4 million dozen pieces in 1961. These imports were equivalent to 9 per cent of the apparent consumption of such dinnerware in 1957 and to 13 per cent in 1961. (See report to the President on Investigation No. 7-114 (TEA 1-2) under Section 301 (b) of the Trade Expansion Act of 1962). The statistical information secured from the Labor Department, Bureau of the Census, Customs Bureau, etc. can be found in the report submitted to the President; the testimony adduced at the hearings and the exhibits submitted can be seen at the Tariff Commission.

F. The Proposed Liberalization Of The Tariff Adjustment Provisions Of The Trade Expansion Act of 1962 By The Trade Expansion Act of 1968 (H.R. 17751) For The Benefit Of Firms And Workers Will Help Those Classes Little If At All Unless There Is A Change In The Criteria For Injury Applying To Domestic Industries

As above stated, when Congress changed the criteria for relief to domestic industries injured as a result of increased imports due to a trade concession from the escape clause provisions contained in the Section 7 of the Trade Extension Act of 1951 to the provisions contained in the present act (Trade Expansion Act of 1962) and included also therein for the first time tariff assistance to injured firms and workers, *not one petition on behalf of domestic industries, firms or workers qualified*. The criteria for securing relief in the present law (Trade Expansion Act of 1962) is the same for domestic industries, individual firms or workers.

The Administration recognizing that whereas the escape clause provisions of the Trade Extension Act of 1951 were successfully applied by several domestic industries which qualified thereunder, the changes made for securing relief by injured industries, individual firms or workers under the Trade Expansion Act of 1962, proved to be a complete nullity, is now suggesting amendments to the latter Act through the proposed "Trade Expansion Act of 1968" (H.R. 17551). However, the proposed changes in H.R. 17551 apply merely to individual firms and workers and *does not apply to domestic industries*. In other words the proposed new Act will make it easier for individual firms and workers to secure relief from loss of jobs or loss of income due to increased ruinous imports, but

the domestic industry which contains the individual firms and employs the workers will still be handicapped by the criteria under the Trade Expansion Act of 1962, which criteria has been impossible to meet up to the present time.

The President in requesting Congress to liberalize the previous impossible restrictions placed on those industries, firms and individuals seeking justifiable relief from imports, very studiously limited the proposed changes to apply only to firms and workers. He stated:

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

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

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

It is respectfully pointed out that to offer relief to firms and workers and not to the domestic industry involved is absolutely worthless . . . What can it possibly benefit a firm if it receive tax assistance or a loan or other adjustment, if the industry is forced out of the business of producing the article because of low cost foreign competition? What can it possibly benefit a worker in the long run if he gets extra unemployment benefits or training or relocation, if the industry in which he was employed transfers its manufacturing ability and know-how to low wage countries because of imports from similar low wage countries? If the proposed "Trade Expansion Act of 1968" (H.R. 17551) is passed in the present form as relates to escape clause provisions for domestic industries; and tariff adjustment provisions as relates to individual firms and workers, it is possible that a firm or worker could qualify for relief under the new provisions but the domestic industry could not qualify even though petitions could be filed by all three categories at the same time and the same evidence adduced by the Tariff Commission in its investigation.

It is strongly urged that the criteria for relief proposed by the new act (H.R. 17551) be changed so that it would be identical for domestic industries, individual firms or workers.

THE PRESIDENT SHOULD NOT BE GIVEN FURTHER AUTHORITY TO REDUCE DUTIES

Under the proposed Trade Expansion Act of 1968 (H.R. 17551) the President is seeking further authority to reduce duties. Under the Trade Expansion Act of 1962 the President was given authority to reduce the rates of duty on imported merchandise to 50 per cent of the rates which existed on July 1, 1962. The authority expired on June 30, 1967.

Under the auspices of the so-called Kennedy Round of negotiations most of the authority granted to the President to reduce rates of duty was used. It is believed that the reductions in the rate of duty applying to imports into the United States were predicated not so much on the concession we received from the negotiating parties under GATT but took into account the domestic industry involved, its relation to the country, its relation to the community, the protection needed (if any) from competitive imports, capital invested, number of employees, etc. If it is a fact that those factors were taken into account, then the reductions in duty under the Kennedy Round were probably the maximum reductions possible, even if less than the full 50 per cent permitted. Therefore, to permit the President to have authority to further reduce duties for any reason in those instances where the full 50 per cent reduction in duty was not used would be imposing an undue hardship by the mere threat of further reductions on those domestic industries.

The results of the Kennedy Round have hardly been realized and the mere authority to further reduce duties could result in a mass exodus of domestic industries to low wage countries. For example the rate of duty on all categories of imported earthenware dinnerware was not reduced the full 50 per cent authorized. Nevertheless, the categories which received a full per cent reduction in duty are dependent and inter-related with the categories which did not receive the full 50 per cent reduction; so that a definite loss of over-all business in the domestic earthenware dinnerware trade is anticipated as a result of the Kennedy Round reductions. Before an additional authority be given to the President to reduce the rate of duty on those categories of earthenware dinnerware which were not originally reduced the full 50 per cent, a waiting period of at least 3 years be set up to determine the effect of the Kennedy Round.

Also certain new categories of earthenware dinnerware were established for customs treatment and duty application under the Kennedy Round. It appears as though the duty on these new categories was not reduced under the Kennedy Round. However, the duty was reduced under previous customs classifications and under prior trade agreements and, therefore, to permit these categories to be reduced at the present time a full 50 per cent of the rate of duty existing on July 1, 1962 would be imposing an undue hardship on an already overburdened industry.

No one is disadvantaged if the President is denied at the present the authority to reduce duties to the full 50 per cent authorized under the Trade Expansion Act of 1962. If in a specific instance for a specific purpose it is necessary, Congress can authorize such authority. Blanket authority to the President at this time can *only* be detrimental to domestic industries.

AN OMNIBUS QUOTA BILL SHOULD BE PASSED SO THAT ANY DOMESTIC INDUSTRY WHICH IS INJURED AND QUALIFIES UNDER AN ANNOUNCED CRITERIA WOULD BE ABLE TO GET RELIEF FROM RUINOUS IMPORTS

Congress is well aware of the many quota bills presently pending and covering many imported articles. There is no doubt that at least some are meritorious and are deserving of Congressional action. Obviously some of them are merely put into the hopper by Congressmen in order to appease constituents.

In order to reduce the work load of Congress in this connection and to remove the doubt as to whether or not a domestic industry is entitled a relief from imports by limiting the amount of imports, an omnibus quota bill should be passed. The criteria for qualifying for relief under such a bill could be spelled out by Congress and would require an overt act on the part of such industry to seek relief. Therefore, even if a particular industry may be entitled to relief under such a bill, the relief would not be forthcoming automatically, but it would be necessary for the industry to petition for the relief necessary.

Again using the domestic earthenware dinnerware industry as an example, we find that since the Tariff Commission ruled under the criteria of the Trade Expansion Act of 1962 that the industry was not entitled to relief, matters have worsened. Furthermore, the duty reductions made under the Kennedy Round have not yet been felt due to the shortness of time that they have been in existence (January 1, 1968). Attached hereto is Exhibit I which is a report of the Bureau of Labor Statistics covering this industry and tells its own story. It shows that from 1960 to 1965 employment decreased 26 per cent and imports increased 42 per cent. Furthermore, and most important, is the fact that in 1960 imports was 18 per cent of total consumption and in 1965 it jumped to 27 per cent. An omnibus quota bill would probably have a percentage of imports as related to domestic consumption as part of its qualifying criteria, and in all probability, would not be as drastic as the jump in this industry from 18 per cent in 1960 to 27 per cent in 1965.

Furthermore, attached hereto is Exhibit II which shows domestic shipments in a steady decline from 1954 to 1966 and a steady increase in the value of imports (based on foreign value) during the same period. During the period the ratio of imports to consumption jumped from 7.7 per cent to a whopping 32.5 per cent. See also Exhibit III, a report of the Bureau of the Census showing the tremendous increase in imports of earthenware table and kitchen utensils from 1954 to 1967 and the negligible amount of exports. As a result of such increased imports against decreased domestic production, the number of production workers decreased from 12,333 in 1954 to 5,626 in 1966 (See Exhibit IV attached hereto). When combined with certain chinaware imports, Exhibit V, a report from the Bureau of the Census, shows that *earthenware* table and kitchen articles domestic shipments decreased from \$67,029,000 in 1954 to \$47,599,000 in 1966 whereas imports increased from \$5,522,000 to \$22,332,000; and when combined with chinaware imports, the ratio of total imports to domestic shipments rose from 28.8 in 1954 to 116.6 in 1966.

No domestic industry can long survive with increases of that nature, especially one like the earthenware dinnerware industry, where approximately 60 per cent of the cost of production is attributable to direct labor. . .

As has been previously stated an omnibus quota bill would probably cover a situation presently encountered by the domestic earthenware dinnerware industry and permit it to qualify for relief under a defined criteria. It would not then be necessary for this industry to seek Congressional relief.

BALANCE OF TRADE PAYMENTS

Our balance of trade payments are linked with and tied up with our trade balances relative to imports and exports. For years it has been the theory that we are a solvent country as reflected in at least one instance by our favorable balance of trade. As a result of this fiction we were advised that in order to keep up our favorable balance of trade, and in fact increase it, we would have to reduce tariffs so that other nations could sell their exports to us before they could buy our exports. This concept was stressed even if it meant the extermination of some domestic industries which were economically operated and turn over the production of that article to foreign countries.

As of several weeks ago we no longer have a favorable balance of trade. Our exports, including government-financed exports, did not exceed our imports. As recently as May 20, 1968 there appeared in the New York Times a statement made by a Vice President of the overseas division of a very large bank, who said: "If Government-financed exports are left out of account, the commercial trade balance this year may show a deficit of \$1.5 to \$2.5 billion, compared with a small commercial surplus last year of \$250 million."

Since our export statistics when stripped of government financed shipments will show an unfavorable balance of trade it reduces considerably the argument of those who claim that duties must be reduced at any cost in order to be able to export. We now have an unfavorable balance of trade and practically free trade. Perhaps it is time to take a hard look at the entire picture of world trade with a view to domestic industries sharing in it.

EXHIBIT I

TABLE I.—FINE EARTHENWARE TABLE AND KITCHEN ARTICLES, SIC 3263

	Shipments (millions)	Imports (millions)	Total (supply)	Imports percent of total	Employment	Employment decrease (percent)	Imports increase (percent)
1960.....	60.2	13.0	73.2	18	8,770	-----	-----
1965.....	51.1	18.5	69.6	27	6,447	-26	+42

EXHIBIT II

EARTHENWARE TABLE AND KITCHEN ARTICLES—U.S. MANUFACTURERS' SHIPMENTS, IMPORTS FOR CONSUMPTION, EXPORTS, AND APPARENT CONSUMPTION, 1954-66

[Dollar amounts in thousands]

Year	Manufacturers' shipments value	Imports value (foreign)	Exports value	Apparent consumption	Ratio of imports/ consumption
1954.....	\$67,029	\$5,522	\$1,358	\$71,193	7.7
1955.....	67,985	6,823	1,435	73,373	9.3
1956.....	69,307	7,869	1,149	76,027	10.4
1957.....	63,212	8,788	1,494	70,508	12.5
1958.....	50,230	9,037	1,487	57,780	12.3
1959.....	58,215	11,614	1,172	58,657	16.5
1960.....	58,326	12,963	1,074	70,215	18.4
1961.....	46,446	11,662	752	57,356	20.3
1962.....	48,383	13,562	640	61,305	22.1
1963.....	59,046	14,033	779	72,300	19.4
1964.....	62,242	16,861	664	78,439	21.4
1965.....	52,334	18,545	898	69,981	26.5
1966.....	47,599	22,332	1,119	68,812	32.5

Source: U.S. Bureau of the Census and Consumer Durables Division.

EXHIBIT III

TABLE II.—EARTHENWARE TABLE AND KITCHEN ARTICLES—U.S. IMPORTS FOR CONSUMPTION AND U.S. EXPORTS, 1954-67

[Dollar amounts in thousands]

Year	Imports		Exports	
	Quantity, 1,000 dozen	Value (foreign)	Quantity, 1,000 dozen	Value
1954.....	3,368	\$5,522	821	\$1,358
1955.....	5,455	6,823	923	1,435
1956.....	6,751	7,869	671	1,149
1957.....	5,996	8,788	1,008	1,494
1958.....	5,841	9,037	1,215	1,487
1959.....	7,955	11,614	838	1,172
1960.....	9,229	12,963	642	1,074
1961.....	8,243	11,662	484	752
1962.....	8,939	13,562	398	640
1963.....	8,151	14,033	348	779
1964.....	9,397	16,861	374	664
1965.....	9,608	18,545	337	898
1966.....	11,087	22,332	459	1,119
1967.....	11,003	23,105	405	1,226

Source: U.S. Bureau of the Census.

EXHIBIT IV

TABLE I.—EARTHENWARE TABLE AND KITCHEN ARTICLES (SIC CODE 3263)—GENERAL STATISTICS OF THE U.S. INDUSTRY, SELECTED YEARS, 1954-66

Year	Establish- ments (number) total	Production workers			Value added by manu- facturer (thousands)	Value of shipments (thousands)
		Number	Man-hours (thousands)	Wages (thousands)		
1954.....	47	12,333	19,467	\$32,468	\$48,655	\$67,029
1955.....	(1)	12,104	19,898	33,686	50,590	67,985
1956.....	(1)	11,502	19,231	35,045	52,746	69,307
1957.....	(1)	10,026	17,018	31,915	45,054	63,212
1958.....	30	7,769	12,645	24,756	36,311	50,230
1959.....	(1)	8,477	14,331	28,228	41,898	58,215
1960.....	(1)	7,890	13,787	27,893	41,743	58,326
1961.....	(1)	6,172	10,833	21,098	32,769	46,446
1962.....	(1)	5,951	10,726	22,231	34,192	48,383
1963.....	21	6,594	12,319	26,416	41,046	59,046
1964.....	(1)	6,717	12,506	26,769	44,454	62,242
1965.....	(1)	5,753	10,689	22,931	37,235	52,334
1966.....	(1)	5,626	10,187	22,211	34,067	47,599

1 Not available.

Source: U.S. Bureau of the Census, Census of Manufacturers, 1963 and annual survey of manufacturers.

EXHIBIT V

HOUSEHOLD EARTHENWARE TABLE AND KITCHEN ARTICLES—DOMESTIC SHIPMENTS AND IMPORTS AND IMPORTS' OF CHINAWARE TABLE AND KITCHEN ARTICLES 1954-66

[Value in thousands of dollars]

Year	Earthenware		Chinaware imports	Total chinaware and earthenware imports	Ratio total imports to domestic shipments
	Domestic shipments	Imports			
1954.....	67,029	5,522	13,754	19,276	28.8
1955.....	67,985	6,823	15,222	22,045	32.4
1956.....	69,307	7,869	16,942	24,811	35.8
1957.....	63,212	8,788	18,359	27,147	42.9
1958.....	50,230	9,037	17,772	26,809	53.4
1959.....	58,215	11,614	21,806	33,420	57.4
1960.....	58,326	12,963	23,382	36,345	62.3
1961.....	46,446	11,662	21,108	32,770	70.6
1962.....	48,383	13,562	24,791	38,353	79.3
1963.....	59,046	14,033	20,757	34,790	58.9
1964.....	62,242	16,861	27,690	44,551	71.6
1965.....	52,334	18,545	30,767	49,312	94.2
1966.....	47,599	22,332	33,185	55,517	116.6

Source: Bureau of the Census.

Mr. FULTON. Thank you, Mr. Golden.

Mr. Ullman?

Mr. ULLMAN. I have no questions.

Mr. FULTON. Mr. Byrnes.

Mr. BYRNES. I have no questions.

Mr. FULTON. Mr. Conable.

Mr. CONABLE. I have no questions.

Mr. FULTON. There being no further questions, we certainly appreciate your contribution.

Mr. GOLDEN. Thank you.

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

STATEMENT ON BEHALF OF THE EXPANDED SHALE, CLAY & SLATE INSTITUTE, THE LIGHTWEIGHT AGGREGATE PRODUCERS ASSOCIATION, AND THE NATIONAL SLAG ASSOCIATION

The Expanded Shale, Clay and Slate Institute is a trade association representing 32 United States producers of expanded shale, clay, and slate for use as a lightweight concrete aggregate. Its members operate 46 plants in 28 states and Puerto Rico, employ many hundreds of people, and annually produce 5,400,000 tons of lightweight aggregate worth \$30,000,000.

The Lightweight Aggregate Producers Association is a trade association representing 13 United States producers of sintered clay, shale, and fly ash for use as a lightweight aggregate. Its members operate 14 plants in 9 states, employ several hundred people, and annually produce 2,400,000 tons of lightweight aggregate worth \$13,200,000.

The National Slag Association is a trade association representing 9 sellers of expanded slag for use as a lightweight aggregate. Its members operate 12 plants in 9 states, employ several hundred more people, and annually market 2,450,000 tons of lightweight aggregate worth \$7,250,000.

We are attaching to this statement a listing of our members and the locations of their plants. Together they account for approximately 85 percent of domestic production of expanded shale, clay, and slate aggregates, approximately 95 percent of domestic sales of slag aggregates, and roughly two-thirds of domestic production of all light-weight aggregates.

The lightweight aggregate industry

Aggregate is the material that is added to cement or a similar adhesive to make concrete. Sand, gravel, and crushed stone are used as aggregate in the making of heavier grades of concrete. Lighter grades of concrete require a lightweight aggregate. These lighter grades enjoy obvious advantages in large-scale construction projects and have achieved general acceptance for that use, particularly in the form of concrete blocks. The market for light aggregates derives directly from the demand thus generated for lightweight concrete.

Lightweight aggregates are invariably low-priced bulk minerals. Expanded shale, clay, and slate are produced by burning certain types of raw shale, clay or slate in rotary kilns or sintering them on traveling plates. The burned or sintered raw material expands to as much as several times its original size without any increase in weight and thus becomes suitable for use as lightweight aggregate.

Slag is a byproduct of the iron blast furnace process. When molten slag is expanded with controlled applications of water, it too is suitable for use as lightweight aggregate. Other lightweight aggregates include coal cinders, vermiculite, perlite, and pumice.

Pumice is a glass-like form of cooled volcanic lava which is light in weight because it is full of minute cavities caused by expanding volcanic gases that become entrapped when the lava suddenly cooled. Limited quantities of pumice are mined in some of our own western states. Recently, however, floods of imported pumice, primarily from Greece and Italy, have been pouring into our eastern seaboard markets for lightweight aggregate. Impeded by no tariff barrier at all—the pumice we are concerned with comes in duty-free—this imported pumice is making sudden and deep inroads in cities and localities near several eastern ports.

Our member firms and the people who work for them find their businesses and their jobs threatened. We come to seek relief from this threat.

The development of the pumice aggregate threat

During the 1950's and before, little pumice entered the United States from abroad, and most of what did was intended for use as an abrasive. Some pumice still is brought for this purpose, and to this day pumice is classified among the abrasives in the Tariff Schedules of the United States. The Tariff Act of 1930 originally subjected the type of pumice which primarily concerns us to a duty of 0.1 cent per pound. By 1956, however, trade agreement concessions had lowered the duty to 0.0425 cent per pound.

Meanwhile, in the late forties and early fifties, domestic pumice in small quantities and imported pumice in even smaller quantities began to be employed as a lightweight aggregate. The domestic pumice all comes from western mines and processing plants. Then as now, transportation costs made it unavailable east of the Mississippi. Then as now, all or almost all imported pumice entered through the eastern seaboard and was marketed only in the East. Then, however, most such pumice imports came to Florida ports for use within that state. They were not a significant factor in any larger lightweight-aggregate market.

In 1959 a special law was enacted for the benefit of Florida importers and concrete block producers eliminating the tariff on "pumice stone to be used in the manufacture of masonry products such as building blocks, bricks, tiles and similar forms."¹ (Now Item 519.05, United States Tariff Schedules Annotated.)

¹ Public Law 86-325, 73 Stat. 596 (1959).

At that time our industry opposed this law because we foresaw that it would inevitably allow the importation of pumice to spread to a much wider area on the East Coast and to take on a much larger scale. Unfortunately, we were proved right about that.

The only east coast area whose imports of masonry pumice have not risen since the duty was eliminated is Florida. The subsequent poor performance of the low-quality pumice then being imported there temporarily eliminated the local market for pumice. As we had feared, it temporarily damaged the local market for other lightweight aggregates as well.

The rising swell of imports

Elsewhere the story was quite different, and it bore out our fears that elimination of the tariff would invite destructive competition all over the East Coast. Imports, which were negligible outside of Florida in 1959, had by 1961 reached 24,000 tons. In 1962 they tripled to 76,000 tons. In 1963 they doubled again to 146,000 tons. Since then they have proceeded in an erratic but unmistakable climb that last year brought them to 238,000 tons, ten times the level of 1961. If unrestrained, these imports will undoubtedly go higher.

The worst of it is that the full brunt of this assault on U.S. markets falls on a few firms located at or near the East Coast. Almost all the pumice imports are coming into the eastern seaboard ports between Boston and Norfolk and are being marketed near those ports. Though local markets for lightweight aggregate are growing as builders discover the advantages of these materials, they remain limited, and as a result of this intense import competition individual plants and even companies are in danger of being swamped and driven out of business.

When low-priced pumice became available in the Norfolk area a year or so ago, for example, it put domestic competitors at a sudden and severe competitive disadvantage. Lured by lower prices, local concrete block makers turned to pumice, and local construction firms turned to the correspondingly cheaper pumice block. Whereas in 1966 no pumice at all had been sold in the Norfolk area, last year pumice took up 21 percent of the lightweight aggregate market there, and in the first six months of this year pumice has preempted a full 55 percent of that market. Perhaps coincidentally, a local block maker who had been using another type of lightweight aggregate went into liquidation and has left the business.

Similar, if less drastic, consequences have followed the import surge in other areas. On up the east coast last year pumice imports chewed up an estimated 15 percent of the lightweight aggregate market in the Baltimore area; 60 percent of the market in Philadelphia; 47 percent of the market in Elizabeth, New Jersey; 83 percent of the market in Milford, Connecticut; 71 percent in New Haven, Connecticut; 69 percent in Providence, Rhode Island; and 41 percent in Boston. Evidence so far this year is that these percentages will rise further. Naturally, the domestic firms in these areas are being hurt by the loss of business. Workers in these areas are being hurt by the loss of jobs.

Meanwhile the pumice importers have promised to extend their marketing efforts back down the remainder of the East Coast, around to the Gulf Coast, and through the St. Lawrence Seaway to Great Lakes ports as well. When and if they are able to carry out their promise, many more domestic producers and their employees will be similarly threatened.

Causes and adverse effects of pumice imports

The price advantage imported pumice enjoys over competing domestic aggregate stems from its distinct advantages in labor and materials costs. The wages paid to Italian or Greek laborers are far below those we pay our workers here in the United States. Moreover, the pumice is considerably less complicated to mine and process than the expanded or sintered materials we market. It requires nothing like the millions of dollars of plant and equipment in which our firms must invest.

Even the costs of transporting the pumice across a thousand miles and more of ocean adds no more to the dockside price than a rail journey of a few hundred miles adds to the price of domestic aggregates. Ships whose holds would otherwise be empty or filled with ballast on return trips to the U.S. give rock-bottom rates to shipments of materials like pumice that can be transported in bulk.

We consider this invasion of our markets by cheap materials processed by cheap labor and brought to the United States at cut rates a form of unfair com-

petition. United States customs offers no relief, since the pumice imports come in duty-free—a fact which the importers are quick to point out to potential customers.

The upshot is that dockside prices on the imported pumice generally are considerably less than the best prices domestic competitors can offer.²

The strong and swelling surge of imports that results is threatening the growth of an important domestic industry, costing American workers jobs, and contributing to the newly unfavorable trend in our balance of trade and the already unfavorable condition of our balance of payments.

The lightweight aggregate industry was a relative newcomer in the postwar period and expanded rapidly during that period. Recent years have seen some leveling off of production and consumption. But as the advantages of lightweight aggregate and of the lightweight masonry it makes possible become better known and more widely appreciated, we anticipate a renewal of rapid growth in the market as a whole. If the importation of pumice continues to grow even faster than the overall market, however, the growth of our domestic industry and in particular the growth of firms whose plants lie near ocean ports will be stymied, if not reversed. By the same token, the employment of American workers in the industry will be severely curtailed.

Meanwhile, increasing imports of pumice are helping to aggravate this nation's already severe balance of trade difficulties. Because lightweight aggregates are low-priced commodities for which transportation costs over great distances at normal rates are generally prohibitive, they are not exported from the United States except in very small quantities to nearby islands. Thus almost the entire amount of pumice imports—over half a million dollars last year—is a net drain on the balance of payments.

In this respect of course the experience of the lightweight aggregate industry differs from that of other industries only in its complete one-sidedness. In industry after imports are outpacing exports, to the point that in March and May even the balance of trade, long the bright spot in the payments picture, turned against the United States for the first time.

Something must be done, and Congress is the right place to start.

The need for Congressional Action

Before this Committee now are several measures that will alleviate the current general trade situation and the situation of industries being injured, as ours is, by rising imports.

We support the President's move to make it easier for injured firms and workers to qualify for adjustment assistance and to simplify the attendant procedures.

We support also bills like that introduced by Mr. Herlong (H.R. 16936) to impose import quotas whenever imports threaten to overwhelm an industry before it has time to react.

But because of the peculiar regional nature of the threat to our industry, we are uncertain that these bills will meet it. For this reason and for the protection of our firms and their employees, we respectfully request that imports of masonry pumice (Tariff Item 519.05) be limited by law to an amount equal to the average of such imports over the past five years, 1963–1967. Such a limitation, while not excluding imports altogether, would permit domestic lightweight aggregate producers to maintain their just share of the now-threatened markets in our seaboard cities and would reduce the drain from these imports on our balance of payments. We further ask this Committee to give our problem careful consideration in the formulation of more general legislation, and we add our voices to the proposition that in the formulation of United States trade policy the needs of U.S. business and U.S. workers should be placed first.

JOHN J. SAPIENZA,
CHARLES H. HERZ,
Of Counsel.

² Exact price figures are unfortunately unavailable, since prices vary with each transaction.

Attachment

ROSTER OF MEMBERS

EXPANDED SHALE, CLAY & SLATE INSTITUTE

Alabama :

Vulcan Materials Co.
P.O. Box 7324-A
Birmingham

Arkansas :

Arkansas Lightweight
Aggregate Corp.
P.O. Box 99
England

California :

Basalt Rock Co., Inc.
8th and River Streets
Napa
The McNear Co.
P.O. Box 1380, McNear Point
San Rafael
Lightweight Processing Co.
650 South Grand Avenue
Los Angeles (three plants in Los
Angeles area)
Port Costa Clay Products Co.
P.O. Box 5
Port Costa
Kaiser Industries Corporation
Sand and Gravel Division
300 Lakeside Drive
Oakland

Colorado :

The IDEALITE Co.
821 Seventeenth Street
Denver

Florida :

Florida Solite Co.
1114 SCL Building
Jacksonville

Georgia :

Georgia Lightweight Aggregate
Co.
P.O. Box 19781, Station "N"
Atlanta

Illinois :

Material Service
Division of General Dynamics
Corp.
300 W. Washington Street
Chicago

Indiana :

Hydraulic Press Brick Co.
Brooklyn

Iowa :

Carter-Waters Corp.
Centerville

Kansas :

Buildex, Inc.
P.O. Box 15
Ottawa
Buildex, Inc.
Marquette

Kentucky :

Kenlite
129 River Road
Louisville

Louisiana :

Louisiana Lightweight Aggregate Co.
P.O. Box 5472
Alexandria
Big River Industries
P.O. Box 66377, Central City Station
Baton Rouge

Minnesota :

Acolite, Inc.
Springfield

Mississippi :

Jackson Ready-Mix Concrete
P.O. Box 1292
Jackson

Missouri :

Carter-Waters Corp.
2440 Pennway
Kansas City
Hydraulic Press Brick Co.
705 Olive Street
St. Louis

Montana :

Treasure State Industries, Inc.
P.O. Box 2750
Great Falls

Nebraska :

Western Aggregate & Brick Co.
P.O. Box 268
Lincoln

New York :

Buffalo Haydite Division of J. P. Bur-
roughs & Son
P.O. Box 29
West Falls
Hudson Valley Lightweight Aggre-
gate Corp.
1967 Turnbull Avenue
Bronx
Northern Lightweight Aggregate, Inc.
628 S. Saratoga Street
Cohoes
Nytralite Aggregate Division of Lone
Star Cement Corp.
162 Old Mill Road
West Nyack

North Carolina :

Carolina Solite Corp.
4425 Randolph Road
Charlotte

North Dakota :

Baukol-Noonan, Inc.
P.O. Box 223
Mandan
Baukol-Noonan, Inc.
Noonan

Ohio :

Hydraulic Press Brick Co.
P.O. Box 7786
Cleveland

ROSTER OF MEMBERS—Continued

EXPANDED SHALE, CLAY & SLATE INSTITUTE—continued

Oklahoma :

Chandler Materials Co.
1723 South Boston
Tulsa
Chandler Materials Co.
Choctaw Division
P.O. Box 158
Choctaw

Oregon :

Empire Building Material Co.
9255 N. E. Halsey Street
Portland

Puerto Rico :

Diazlite Inc.
Box 2588 G.P.O.
San Juan

South Dakota :

Light Aggregates, Inc.
P.O. Box 1922
Rapid City

Tennessee :

Tennlite, Inc.
P.O. Box 336
Greenbriar

Texas :

Dallas Lightweight Aggregate Co.
P.O. Box 400
Arlington
Texas Lightweight Aggregate Co.
P.O. Box 400
Arlington
Texas Lightweight Aggregate Co.
3111 McKinney Avenue
Houston

Utah :

Utelite Corp.
Coalville

Virginia :

Clinchfield Coal Co.
Dante
Solite Corp.
P.O. Box 9138
Richmond
Virginia Solite Co.
P.O. Box 2015
Arlington

LIGHTWEIGHT AGGREGATE PRODUCERS ASSOCIATION

PRODUCER MEMBERS

Illinois :

Illinois Brick Co.
228 N. LaSalle St.
Chicago, Ill. 60601
Waylite Co.
20 N. Wacker Drive
Chicago, Ill.

Massachusetts :

Masslite, Inc.
P.O. Box 1747
Plainville, Mass. 02762

Michigan :

Light Weight Aggregate Corp.
12720 Farmington Road
Livonia, Mich.

Minnesota :

North Central Lightweight
Aggregate Company
4901 W. Medicine Lake Drive
Minneapolis, Minn.

New Jersey :

Sayre & Fisher Brick Co.
Sayreville, N.J.

New York :

Onondaga Lightweight
Aggregate Corp.
Peck Road
Warners, N.Y.

Pennsylvania :

G. & W. H. Corson, Inc.
Plymouth Meeting, Pa.
Freeport Brick Co.
Freeport, Pa. 16229
Bylite Corporation
P.O. Box 1628
North End Station
Wilkes-Barre, Pa.

Tennessee :

John A. Denie's Sons Co.
373 Adams Ave.
Memphis, Tenn.
Shalite Corporation
P.O. Box 441
Knoxville, Tenn. 37901

Virginia :

Web-lite Corporation
P.O. Box 270
Roanoke, Va.

ROSTER OF MEMBERS—Continued

MEMBER COMPANIES OF THE NATIONAL SLAG ASSOCIATION

Alabama :

U.S. Pipe & Foundry Company
3300 First Avenue, North
Birmingham, Alabama 35202
Vulcan Materials Company
P.O. Box 7497
Birmingham, Alabama 35223

California :

Fontana Slag Division
Brown Bros. Contractors, Inc.
P.O. Box 1010
Fontana, California 92335

Michigan :

Edw. C. Levy Company
8800 Dix Avenue
Detroit, Michigan 48209

Ohio :

American Materials Corporation
P.O. Box 291
Hamilton, Ohio 45012
The Standard Slag Company
1200 Stambaugh Building
Youngstown, Ohio 44501

Pennsylvania :

Bethlehem Steel Corporation
701 East Third Street
Bethlehem, Pennsylvania 18016
Duquesne Slag Products Co.
Frick Annex Bldg., 16th Floor
429 Forbes Avenue
Pittsburgh, Pennsylvania 15219
United States Steel Corporation
525 William Penn Place
Pittsburgh, Pennsylvania 15230

STATEMENT OF J. RAYMOND PRICE, EXECUTIVE SECRETARY OF GLASS CRAFTS OF AMERICA, ON BEHALF OF THE AMERICAN HAND-MADE GLASSWARE INDUSTRY

GLASS CRAFTS OF AMERICA

MEMBERSHIP

1. Blenko Glass Company, Milton, West Virginia 25541.
2. Fenton Art Glass Company, Williamstown, West Virginia 26187.
3. Fostoria Glass Company, Moundsville, West Virginia 26041.
4. Imperial Glass Corporation, Bellaire, Ohio 43906.
5. Lenox Crystal, Inc., Mount Pleasant, Pennsylvania 15666.
6. Morgantown Glassware Guild, Morgantown, West Virginia 26505.
7. Pilgrim Glass Corporation, Ceredo, West Virginia 25507.
8. Rainbow Art Glass Company, Huntington, West Virginia 25704.
9. Seneca Glass Company, Morgantown, West Virginia 26505.
10. L. E. Smith Glass Company, Mount Pleasant, Pennsylvania 15666.
11. Tiffin Glass Company, Inc., Tiffin, Ohio 44883.
12. Viking Glass Company, New Martinsville, West Virginia 26155.
13. Westmoreland Glass Company, Grapeville, Pennsylvania 15634.
14. West Virginia Glass Specialty Company, Weston, West Virginia 26452.

IDENTIFICATION AND QUALIFICATION OF THE WITNESS

Mr. Chairman and Gentlemen of the Committee, My name is J. Raymond Price. I am Executive Secretary of GLASS CRAFTS OF AMERICA, an organization comprised of fourteen U.S. companies engaged in the production of hand pressed and hand blown glassware. I am also Executive Secretary of the Illuminating and Allied Glassware Manufacturers Association, an organization of seven U.S. companies engaged in the production of hand-made glassware products for illuminating, industrial and allied purposes. In addition to these two Association groups of glassware manufacturers I also represent, on an individual basis, twelve additional companies producing a general line of hand-made glassware.

This presentation is made on behalf of all these companies who are desirous of lending their support to H.R. 16936 as introduced in the House of Representatives by Mr. Herlong, May 1, 1968. The companies that I represent manufacture approximately 90 to 95 percent of all the hand-made glassware made in the U.S.A. In each of their respective locations they contribute substantially to the total industrial payroll and, in some instances, almost 100 percent of the total industrial payroll in the community.

It is the earnest desire of the American Hand-Crafted Glassware industry to cooperate with, and to assist in every way possible, this Committee in the discharge of its responsibilities in conducting these trade legislation hearings. We feel that we can best do this by conveying to the Committee some of the problems experienced by this industry under past and present tariff policies. The ever-increasing influx of imports and Hand-Made glassware over the past twenty years has brought about a very serious erosion of the domestic industry. The story of this industry, in this respect, has been told many times before, but it will bear repetition, in essence, here because there has been no change, except for further and continuing deterioration.

To illustrate briefly the reasons for, and the intensity of, our interest, I should like to point out that, in 1950, wage and employment surveys conducted for this industry and through my office, covered 39 companies operating 40 plants. Those 39 companies included all of the major producers of hand-made glassware in America. The surveys included the collection of such data as the number of workers employed, total hours those employees worked, total earnings, average rates per hour, etc.

Ten years later, in 1961, we reviewed the happenings of the 1950-1960 decade. As of January 1, 1961, 15 of the companies which were operating in 1950 were out of production. Those 15 companies alone, in 1950, had employed 3,080 workmen as compared to the total employment of 4,644 hourly-paid workmen in the companies which remained in operation when the 1961 survey was taken. The loss of those companies represented a loss of approximately $4\frac{1}{2}$ million manhours of work per year, and a loss of approximately 42 percent of America's oldest and one of its most vital industries.

The primary reason for the loss of these companies was the inability of their respective management to compete with low-wage products from abroad.

This same problem continues with greater intensity today. In 1965 we had 23 companies reporting a total of 4,690 employees who worked a total of 7,738,141 hours. This means that we have regained only 46 in the number employed during these past five years. Moreover, those employees worked almost one-half million fewer hours in 1965 than in 1961.

This is not too difficult to understand when we consider that imports of table and art glassware have increased in each of the past five years, reaching record levels in 1965 and indicating new higher levels in this current year. According to a report issued by the Business and Defense Services Administration of the U.S. Department of Commerce in February of 1966, it was estimated that imports of table and art glassware alone would reach 20.5 million dollars in 1965 (imports were valued at $5\frac{1}{2}$ million dollars in 1950 and $11\frac{1}{2}$ million in 1960), and this estimate is based on foreign value, country of origin, and does not include U.S. import duties, ocean freight and marine insurance. The first six months of 1966, according to the U.S. Department of Commerce data on imports of Table and Art Glassware, indicated that the trend continued upward with a foreign value, country of origin, of 23.7 million as compared to 20.5 million in 1965.

The first six months of 1967 compared to the first six months of 1966 show the following gains:

Total imports \$11,525,890, or a gain of 6.5 percent over the January to June period of 1966.

Typical of the gains shown by the leading exporters to this country would be Italy with a 10 percent gain in 1965, West Germany 25.4 percent, and Japan 30 percent.

Other countries indicating a sizeable increase (although somewhat lower volume than the first three named above) are the United Kingdom up 45.2 percent and Ireland up 46.4 percent.

Hand-made glassware was the principal 1965 glass import and supplied *more than 50 percent of the domestic market.*

Imports from Soviet-bloc countries accounted for 11 percent of the total (2.1 million dollars—an increase of 25 percent in the first eleven months of 1965).

As of May 31, 1966, over fourteen countries have increased the value and quantities of shipments of glassware to the United States. Korea, with a 330 percent increase, leads the parade followed by :

	Percent		Percent
Spain -----	+94.7	Belgium -----	21.1
Ireland -----	41.5	Italy -----	10.7
Denmark -----	28.0	East Germany -----	8.8
Bulgaria -----	24.0	Czechoslovakia -----	8.5
Japan -----	22.1	Rumania -----	1.0
West Germany -----	21.8		

The above data, released by the Consumer Durable Goods Division of the U.S. Department of Commerce, indicate a 10.4 percent increase in total value of table and art glassware for the period ending May 31, 1966. Shipments were valued at \$8,892,023 or \$835,891.00 more than for the same period in 1965.

Early in 1968 the industry was informed that it must gird for greater onslaughts, particularly from Japan which supplied 27.7 percent of the total imports last year.

A glass industry publication recently reported :

"A sweeping invasion of 8000 units of glassware consisting primarily of tumblers and brandy glasses valued at approximately \$16,700 is now being spear-headed at the American market. Nippon Toki Company, Ltd., producers of Nori-take China, has already started state-side export of its newly added crystal glass-ware line. The firm began production of the line some five years ago, with this being the first overseas shipment . . ." (Note: This ware is already on the American market.)

Since the preliminary work on this report was outlined in March of this year, we have received the data for the first quarter of 1968 from the U.S. Department of Commerce, Durable Goods Division. (See Exhibit 1 attached.)

As we have already indicated, the drastic decline of the domestic hand-made glassware industry has been brought about primarily because it has been impossible for American manufacturers to compete in their own market with similar products made in foreign countries which enjoy an overwhelming advantage in labor costs.

The average hourly rate paid to Skilled glassworkers in America today is \$3.39 per hour. Add to this figure current fringe benefits and the total cost to the employer is somewhere around \$3.93 per hour. To the supporting or so-called Miscellaneous help in the Glass industry, the average rate is \$2.43 per hour. Add to this fringe benefits currently in effect and we come up with a wage of \$2.82 per hour. (Approximately sixty to seventy-five cents of every cost dollar goes to labor).

The enormity of the task facing the American manufacturer of hand-crafted glassware is well illustrated by a comparison with his Japanese competitor. The domestic manufacturer using the same tools, techniques and equipment must, in this case, overcome wage cost differentials of about twenty to thirty times the wage cost of the Japanese manufacturer. For example: The average *monthly* wage¹ paid to a Middle School (equivalent to U.S. High School) graduate in Japan in 1967 was 13,820 yen (1 yen equals about three-tenths of one U.S. cent). Thus, that Japanese worker's wage equals about \$13.89 per month as compared to approximately \$467.00 now paid to a similar worker in the Hand-Crafted Glassware industry in the U.S.A.

The Hand-Crafted Glassware industry is of vital importance to our national defense in times of war or other national emergency, yet these factories cannot be maintained nor can the irreplaceable skills of the men and women who work in the industry be preserved on a war-time or emergency-need basis. Their ability to rapidly convert to the production of such items as glass for ships, planes, airports, ordnance use, signal glass, sonar, radar and television bulbs has been fully demonstrated in World Wars I and II and in the Korean situation, and there is no reliable source of supply outside our nation's borders to replace them in time of war. This reservoir of facilities, technical personnel and skilled craftsmen cannot be tossed into the discard. However, these companies cannot exist unless we can find some way to preserve for them a fair share of the domestic market for the ordinary household glassware, giftwares,

¹ U.S. Department of Labor, BLS.

glass for household and business illumination purposes, etc.—their “Bread and Butter” items as it were—in times of peace.

In order that there be no misunderstanding of our position, the American manufacturer is fully cognizant of the necessity for maintaining trade with foreign nations. We do not seek to create tariff barriers for the sole purpose of eliminating competition. All we ask is that the American manufacturer be given an opportunity, by whatever means may be found just and equitable, to sell his wares, made by AMERICAN workmen at AMERICAN labor rates, equal to the opportunities afforded foreign manufacturers whose employees are paid much lower rates.

In his recent appearance before this Committee, Secretary of State, the Honorable Mr. Dean Rusk, said that the position of the United States as the largest single trading nation “underlines our special responsibility to insure that our trade policy promotes a continued growth of *our own*² and the world economy.”

We believe that H.R. 16936 undergirds this philosophy in that it specifically allows for growth and in fact it does not propose, generally, any reduction in the current *level* of imports. Quotas would come into being only if and when prescribed “ceilings” have been penetrated. Moreover, it will allow imports to be increased in equal proportion to the growth of the American market.

Section 5 of H.R. 16936 establishes certain criteria through which equitable ceilings on imports may be imposed. We would not presume to say that in all phases of their application these criteria are 100 percent accurate, but we do hold that the principle is sound. We hold, further, that certainly it is more equitable, and the principle reasonably defensible, when, after an appraisal of all factors set forth under this and related sections of H.R. 16936, reasonable ground rules are thus enunciated for the implementation of our tariff policy. For far too many years we, in the Hand-Crafted Glassware industry, have felt that the interests of domestic manufacturers were being dealt with solely on the whim or arbitrary judgment of persons who cared little about the preservation of the best interests of our own U.S. industries. This, we think, has been justifiable in view of the fact that over the past score of years directly competitive imports have taken, and now continue to hold, more than 50 percent of the domestic market in hand-made glassware.

The writer can well recall an appearance before the Committee on Ways and Means prior to the passage of the Tariff Revision Act of 1962. On that occasion, we warned that the relief provisions of the then-pending legislation were cynical and meaningless. The experience of those industrial firms which later sought relief under the applicable provisions of the Act during these intervening years has proven, beyond any question, the accuracy of that appraisal. According to our best information, not one single measure of relief has ever been granted.

It is our hope that the members of this Committee will lend their support to a re-direction of U.S. Foreign Trade Policy in order to bring about some measure of equitable treatment for domestic industry. We believe that the enactment of H.R. 16936 would extend the principle of quota limits under specific criteria—

² *Italic supplied.*

much in the same manner as they are now applied to control the level of imports of agricultural commodities, the International Coffee Agreement, the cotton textile Arrangement, etc.

The ceilings on imports provided for in H.R. 16936 will insure the availability of a very liberal share of the U.S. market to imports, and would permit that share to increase as the market increases. At the same time, it will prevent further erosion of U.S. industry, it will slow the exportation of American capital and American jobs, and will far more effectively serve the national interest than tariff policies of the recent past.

U.S. DEPARTMENT OF COMMERCE, BUSINESS AND DEFENSE SERVICES ADMINISTRATION

TABLE AND ART GLASSWARE: U.S. IMPORTS FOR CONSUMPTION BY COUNTRY FOR JANUARY-MARCH 1967 AND 1968

[Quantity in number; foreign value in U.S. dollars]

Country of origin	1967 January-March		1968 January-March		Percent change
	Quantity	Value	Quantity	Value	
Italy.....	3,497,135	1,490,224	3,418,171	1,687,439	+13.2
West Germany.....	1,229,780	1,009,995	1,327,971	1,104,769	+9.4
Japan.....	3,712,847	640,445	3,270,038	573,523	-10.5
France.....	1,232,822	424,913	1,177,886	487,379	+14.7
Sweden.....	578,344	460,080	506,318	455,322	-1.0
Ireland.....	149,955	340,680	135,198	340,295	
Mexico.....	1,071,659	232,611	1,689,763	325,510	
Czechoslovakia.....	633,968	291,797	445,445	210,663	
United Kingdom.....	103,413	157,269	281,941	169,962	
Poland.....	259,949	176,533	279,169	160,771	
Belgium.....	144,144	112,250	193,751	145,516	
East Germany.....	77,038	130,355	58,165	102,473	
Portugal.....	284,694	83,258	246,038	68,448	
Hungary.....	201,301	44,214	335,445	60,918	
Netherlands.....	52,892	68,890	26,455	46,589	
Korea, Republic of.....	374,436	24,982	698,958	40,211	
Denmark.....	41,929	21,323	78,388	36,344	
Rumania.....	223,950	32,528	200,960	30,912	
Yugoslavia.....	34,582	6,982	70,941	26,927	
Austria.....	32,099	32,462	18,200	25,921	
Finland.....	117,983	55,722	68,028	25,262	
Canada.....	62,703	9,813	207,704	15,036	
Norway.....	9,863	7,717	11,065	14,816	
Nansei and Nanpo Islands.....	11,713	7,564	29,688	12,967	
Spain.....	49,036	13,839	22,987	11,711	
Taiwan.....	201,393	17,923	119,373	10,525	
Switzerland.....	2,003	4,292	7,044	10,288	
Pakistan.....	645	1,930	6,738	10,253	
Turkey.....	55,492	10,956	49,262	8,193	
Hong Kong.....	107,360	11,097	107,114	6,933	
Israel.....			1,709	6,605	
India.....	19,277	7,826	49,037	6,242	
Other.....	427,484	39,002	49,353	13,226	
Total.....	15,001,889	5,969,472	15,188,303	6,251,919	+4.7

TABLE AND ART GLASSWARE: U.S. IMPORTS FOR CONSUMPTION, BY KIND, FOR JANUARY-MARCH 1967, AND 1968

[Quantity in number; foreign value in U.S. dollars]

TSUSA No.	Description	1967		1968	
		January-March		January-March	
		Quantity	Value	Quantity	Value
	Articles chiefly used for preparing, serving or storing food or beverages; smokers' articles, art and ornamental:				
546.11	Valued not over \$1 each.....	138,058	60,034	295,049	146,153
546.13	Valued over \$1, not over \$3 each.....	283,219	515,833	420,753	750,329
546.17	Valued over \$3 each.....	86,067	479,057	92,978	529,690
	Glassware (Venetian type) valued not over \$1 each:				
546.21	Smokers' articles.....	58,443	25,345	36,244	17,982
546.23	Other.....	13,945	7,205	42,510	10,297
546.25	Valued over \$1 each.....	59,689	95,266	99,390	147,060
546.35	Bubble glassware.....	2,594,918	815,973	2,505,107	908,914
546.38	Glassware pressed and toughened.....	435,969	47,842	465,382	59,700
	Other glassware, smokers' articles:				
546.40	Valued not over \$1 each.....	411,825	136,381	578,022	146,416
546.42	Valued over \$1, not over \$3.....	(1)		32,899	52,674
	Valued over \$3 each:				
546.43	Cut or engraved.....	(2)		1,848	7,678
546.44	Other.....	(3)		2,785	12,107
	Perfume bottles fitted with ground glass stoppers:				
546.46	Valued not over \$1 each.....	72,887	22,138	52,692	18,426
546.48	Valued over \$1, not over \$3 each.....	(1)		10,384	15,281
	Valued over \$3 each:				
546.49	Cut or engraved.....	(2)		1,102	4,800
546.50	Other.....	(3)		353	2,079
	Other:				
546.52	Valued not over 30 cents each.....	10,020,892	2,078,975	8,145,816	1,079,129
546.54	Valued over 30 cents, not over \$1.....			1,682,574	883,105
546.56	Valued over \$1, not over \$3 each.....	(1)		624,750	926,781
	Valued over \$3 each:				
546.58	Cut or engraved.....	(2)		57,671	293,177
546.59	Other.....	(3)		39,994	240,141
	¹ Formerly No. 546.5300.....	706,595	1,040,168		
	² Formerly No. 546.5500.....	83,426	425,679		
	³ Formerly No. 546.5700.....	35,956	219,576		
	Total.....	15,001,889	5,969,472	15,188,303	6,251,919

Source: U.S. Department of Commerce official statistics prepared in Consumer Durables Division, May 1968.

STATEMENT OF HARRY W. BAUGHMAN, JR., NATIONAL PRESIDENT, WINDOW GLASS CUTTERS LEAGUE OF AMERICA

Mr. Chairman and Members of the Committee, My name is Harry W. Baughman, Jr. I am National President of the Window Glass Cutters League of America, a labor organization representing approximately 750 members employed in the manufacturing of window glass. Our Union consists of twelve (12) locals located in West Virginia, Pennsylvania, Ohio, Indiana, Arkansas, Oklahoma and Louisiana. We have been chartered in the AFL-CIO since 1928 as:

The Window Glass Cutters League of America
1078 South High Street
Columbus, Ohio 43206

In this Hearing we are directly concerned with the manufacturing of window glass or sheet glass, whichever you prefer. We strongly oppose the present low tariff rates which allow the foreign producers the world over to further penetrate the already crippled industry.

We respectfully submit our reasons for strongly supporting the Herlong "Fair International Trade" bill, H. R. 16936.

EFFECT ON APPALACHIA

Six of our twelve existing locals are located in the heart of Appalachia. Four in West Virginia and two in western Pennsylvania. One local located in Arnold, Pennsylvania, has been completely shut down since December, 1967 with no indication that it will ever be re-opened. This resulted in the loss of employment

for 90 of our members. Since the average age of our members is 46.10 years, you can readily see the almost impossible task of securing other employment.

The other five locals located within Appalachia are experiencing drastic loss of wages caused by curtailed production brought on by the closing of melting furnaces. The locals where the existing facilities are in operation (three of the six locals in Appalachia) have embarked on an almost complete stocking program both in finished and unfinished ware because of non-existing customer orders.

Prior to 1960 the six aforementioned locals made up approximately 750, or one-half of our then 1500 total membership. True, automation contributed partially to these declining numbers. Presently there are approximately 450 members that make up the six Appalachia locals. These remaining 450 members are for the most part working on a curtailed or pro-rata basis as per negotiated contract obligations. As late as May 7 I have reliable information that even further cutbacks in production is a reality within the six locals. The further cutbacks as predicted in the already recognized depressed region can only worsen the plight of workers and their families in Appalachia.

THE EFFECT OF FOREIGN IMPORTS IN OTHER AREAS

The May 20th issue of the Wall Street Journal reported that housing starts for the month of April, 1968 reached a four year high. If this is a true statement, and we have to assume it is, one would also assume that employment within the window glass industry would also be at a higher level than it was four years ago. However, this is not the case. Two window glass factories previously referred to, one located in Okmulgee, Oklahoma and the other located in Shreveport, Louisiana, started drastic cutbacks in production during the month of April. Despite housing starts at a four year high, not one of our laid off members has been recalled, nor has any of the already idle facilities been started back into production. One factory, located at Henryetta, Oklahoma, has been operating at a 50% of capacity since March, 1967. At this plant alone, 36 of a total membership of 96 were laid off 15 months ago. Those remaining 60 members have been working at drastically reduced hours and wages for 15 months.

The over-all window glass industry is at the present time operating at only 57% of capacity. On May 7, 1968, Mr. Robert Wingerter, President of Libbey-Owens-Ford Glass Company, stated to Special Representatives of the President that his company facilities must operate at a minimum of 60% of capacity before they could even hope to reach a break even point. The same should hold true with all companies within the industry. By the same token, it is easily recognized why employees also must work above a 57% of capacity so they, too, can reach a break even point.

During the month of April, I made an extended trip to the southwestern region to visit with four locals located in that area. I had the opportunity to speak with members of the Building and Construction Trades while in Oklahoma. As you no doubt know, building and construction in the Southwest is also at an all time high, particularly in Texas. In a three state area surrounding Texas, namely Arkansas, Oklahoma and Louisiana, there are four window glass plants. Despite this fact, members of the Building and Construction Trades stated to me that almost without exception all window glass being used in these enormous projects is of a foreign origin. Even with freight and shipping rates at a minimum in such a confined area, the foreign producers have, as they have in the past, demonstrated their ability to penetrate the United States market. Are we to continue the exportation of our jobs to low wage foreign countries on such a ridiculous basis? I don't believe so.

EFFECT ON EMPLOYMENT

In early 1960 our total membership was 1,500 members. At the present time our membership is just half that figure—750 members. As of May 24, 1968, 212 employees, or a little above 25% of our membership, was on lay-off status. It seems ironic that the ratio of imports to consumption is also 25%. At the Charleston, West Virginia local, 39 of our members have been on lay-off status for eight years without any hope of ever being recalled. This again amounted to approximately 25% of the local membership.

We become alarmed when we realize the number of employees being lost through attrition. Prior to 1960 it was normal procedure to hire new employees or replace those employees lost through death or retirements. Under normal operating conditions this must be done to maintain a status quo, regardless of

the product being manufactured. At the Charleston, West Virginia plant alone, 30 employees retired and 5 have died for a total of 35 employees lost through attrition. The same would hold true on a comparable basis for all 12 locals. In the two window glass plants of Libby-Owens-Ford, at Charleston, West Virginia, and Shreveport, Louisiana, the youngest seniority date is February 10, 1956.

At the present time Libby-Owens-Ford Glass Company has 162 employees represented by the Window Glass Cutters League of America, employed in their two plants. This figure, prior to 1960, was approximately 360 employees. If it were not because of contractual obligations, the remaining 162 employees would be reduced to less than 100.

Company officials have stated to me on numerous occasions that they would invest enormous amounts of capital to modernize their existing facilities and place back into operation their idle furnaces if there was any indication they would be able to share in the growing window glass market in the United States. However, with the present tariff structure and non-existing import ceilings, they are not willing to make such investments.

I respectfully submit on behalf of the employees in the window glass industry represented by the Window Glass Cutters League of America, that our employment within the already crippled industry be given great consideration and that you will give full support to the Herlong "Fair International Trade" bill, H.R. 16936.

Thank you for this opportunity to present our position.

STATEMENT OF HUBERTA M. PATTERSON, SECRETARY, WEST VIRGINIA LEAGUE, IN BEHALF OF WEST VIRGINIA, PENNSYLVANIA, OHIO, AND INDIANA GLASS WORKERS' PROTECTIVE LEAGUES

The Glass Workers' Protective Leagues whose members are affiliated with the American Flint Glass Workers Union, have over the years suffered severe setbacks due to ever increasing imports of all types of glass.

While some people argue that the production of glass may not be as important a segment of the national economy as some more basic industries, the great variety of glass products and its multiplicity of uses give it a most important place in our economy.

Lets look more closely at the relationship between protective tariffs and the American glassware industry in general, but particularly the hand-blown segment, offers a good example of the problems arising from increasing imports into the United States. The burden of this importation falls heavily on the workers and owners of the American glass ware industry. As recently as 1966, about 2 out of every 5 workers who produced tableware or artware or industrial glass specialties or lighting fixtures was laid off his regular job.

It is important to consider not just the lost jobs, but the impact of this unemployment on local communities. Since 1950 some fifteen (15) hand glass plants have closed, plants which in the late 1940's provided more than 2,500 jobs. Most of these companies and the ones in production today are located in communities of less than 25,000 population.

In areas of chronic unemployment where each lay-off compounds an already great problem, these glass companies are usually the dominant and in many cases the only manufacturing firms in the towns. The key factor in the failure of glass plants was not poor management and inefficiency. Low wage foreign imports were. It has been said that the automatic machine segment of the industry is the important factor in the closing of hand-made glass plants. Statistics show that is not the main factor, for low wage imports are causing great concern to the automatic machine plants as well.

The average hourly rate paid to skilled glassworkers in this Country today is \$3.93 per hour including fringe benefits. The rate for the supporting industrial help in the glass industry is \$2.82 per hour including fringe benefits. Approximately sixty (60) to seventy (70) percent of every cost dollar goes to labor.

If the hand-made glass industry in America is forced out of business due to imports, there would be a loss of skilled workers who played such an important role in producing wares for the national defense in past wars and other national emergencies.

We hope that there is no misunderstanding of our position. The American glassworker is aware of the necessity of maintaining trade with foreign countries. We are not asking for tariff barriers in order to eliminate competition.

We want to see that our manufacturers are given the opportunity to sell the glass, made by us, the American glassworker, receiving American labor wages, the same as given foreign manufacturers, who pay such low wages.

We respectfully urge the Ways and Means Committee to give every consideration to legislation that will preserve the glass industry, the first industry in America.

STATEMENT OF CLINTON M. HESTER, ATTORNEY, ON BEHALF OF COORS
PORCELAIN COMPANY

COORS PORCELAIN COMPANY, GOLDEN, COLORADO

CHEMICAL PORCELAIN

It is estimated that 40% of Coors chemical porcelain production goes to educational institutions, 15% into Government laboratories and the remaining 45% to industrial laboratories. In all perhaps 10%, or approximately \$130,000 at Coors sales value, is used directly for National Defense.

In the atomic energy field it is used in a great deal of analytical chemistry including the preparation and analysis of special nuclear metals. A list of AEC users includes:

- Dow Chemical Company, Rocky Flats, Colorado
- Oak Ridge National Laboratories
- Savannah River Laboratories
- Hanford
- Los Alamos
- Sandia Corporation
- Argonne National Laboratories
- Lawrence Radiation Laboratories
- Brookhaven Laboratories

In the area of missiles and munitions it is used at the following places in addition to many not listed:

- Redstone Arsenal
- Water Arsenal
- NASA Langley Research Center
- Wright Patterson Air Force Base
- Vandenberg Air Force Base
- Naval Ordnance Laboratory
- Air Force Missile Test Center, Patrick Air Force Base

Other Government laboratories include:

- National Institutes of Health
- National Center for Atmospheric Research
- U.S. Navy, Army and Air Force Medical Services
- Veterans Administration Hospitals
- Bureau of Standards
- Federal Bureau of Investigation Laboratories
- U.S. Food and Drug Administration Laboratories
- Bureau of Mines
- U.S. Geological Survey
- Department of Agriculture Laboratories
- National Cancer Institute

Use of chemical porcelain in teaching of science

Under Title 3 of the National Defense Education Act a document was prepared by the Board of Directors of the Council of Chief State School Officers entitled "Purchase Guide for Programs in Science, Mathematics and Modern Languages", Ginn & Company, 1959 Rev. This Guide is for use in the purchase of economical, modern and necessary apparatus and equipment for elementary and secondary schools. Laboratory porcelain items are listed as basic items in: Basic, Standard and Advanced Biology; Basic, Standard and Advanced Chemistry; Standard and Advanced Elementary Science; Basic and Standard General Science; and Basic and Standard Physics.

The National Science Teachers Association of Washington, D.C. in 1947 published a volume entitled "Science Course Content and Teaching Apparatus Used in Schools and Colleges of the United States." This book was prepared at the request of the Department of State in 1946 particularly for the use of Ministers of

Education of the devastated countries of the United Nations. In this listing, chemical porcelain (specifically Coors) is specified for courses in Elementary School Science; Secondary School Chemistry; College Botany; General Chemistry; Organic Chemistry; Qualitative Analysis; Quantitative Analysis; Physical Chemistry; Biochemistry; General Geology; Mineralogy; College Physics; and College Zoology.

What is chemical porcelain?

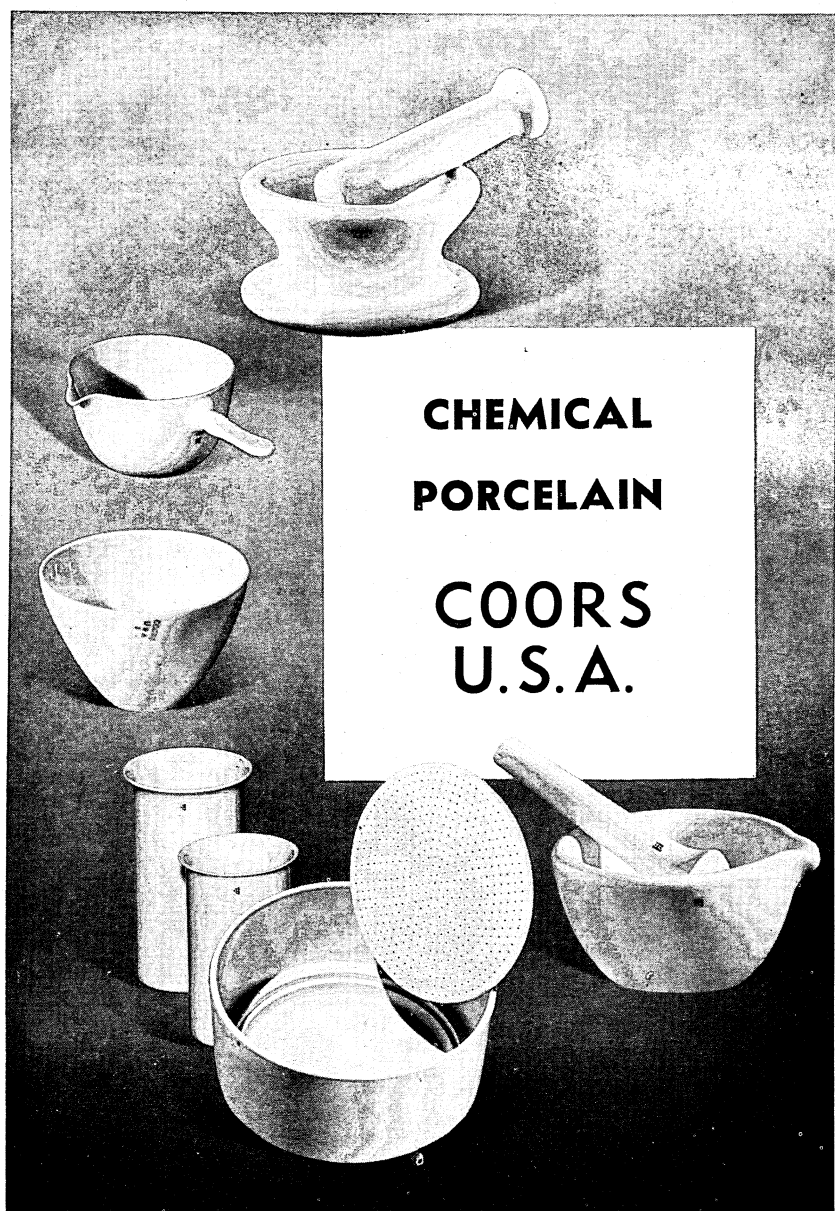
Chemical porcelain is a ceramic product similar in appearance to chinaware but of much higher quality. It is dead white impervious material, covered over most of its surface with a hard white glaze. It is composed, formed and fired to produce maximum resistance to the attack of many chemicals. These properties are vital to the stringent use it receives and the rigorous treatment to which it is subjected in the great variety of uses constantly performed in control and research laboratories. As a product, chemical porcelain is highly specialized and well known only to chemists and scientists who use it in all industrial and educational laboratories, hospitals and governmental laboratories of all kinds. There is certainly not a laboratory in the United States which does not in some way use Coors chemical and scientific porcelain ware. The photographs on the next pages illustrate the type and wide variety of products which are included in this line. In many essential control and research analyses there is no known substitute for chemical porcelain and the work which uses this product could not be carried out if these items were not available.

Chemical porcelain as it is made today is strictly utilitarian in design. These designs are standard throughout the world, having originally been developed in Germany before the time that Coors Porcelain Company started this business in 1915. Although a number of items have been added to the line, there have been no basic changes in design of the fundamental items and actually there is a strong resistance on the part of the chemists to any design changes that are proposed.

Position of Coors in industry

Coors Porcelain Company is the only manufacturer of chemical porcelain in the Western Hemisphere. This situation does not exist because of any patents or restrictive agreements of any kind. This field is certainly open to anybody who desires to get into it. The fact that Coors is the only manufacturer results





from the complexity of the line, the requirements for extremely high quality, and the relatively limited sales volume. It evidently has not appeared to others to be an attractive enough business to justify their making the necessary investment to get into it.

Location of Coors

The only factory of the Coors Porcelain Company is located in the city of Golden, Colorado, which has an estimated population of 8,000. This company along with its parent company, the Adolph Coors Company, manufacturer of

beer, constitute the major industries in this locality. Golden is located twelve miles due west of Denver.

Foreign manufacturers

There are a number of manufacturers of chemical porcelain throughout the rest of the world. Those which have been indicated to us to be of the best quality are Haldenwanger and Royal Berlin, both from Germany. Rosenthal in Germany also produces this type of product as does a Czechoslovakian firm with whose name we are not familiar; Weita in Holland; and several in England, including K. L. G., Limited and Royal Worcester. There is also a Japanese firm known to us as SPC, which has entered the field during the past five years, who offer chemical porcelain but not of the highest quality at the present time. Except for the mention of the Czechoslovakian product, we know nothing of the activities in this area behind the Iron Curtain. At the present time, the sale of Coors porcelain are limited to the United States, Canada and Mexico with other manufacturers covering the remainder of the world. This situation exists because of price and competitive situations which will be discussed later.

Distribution

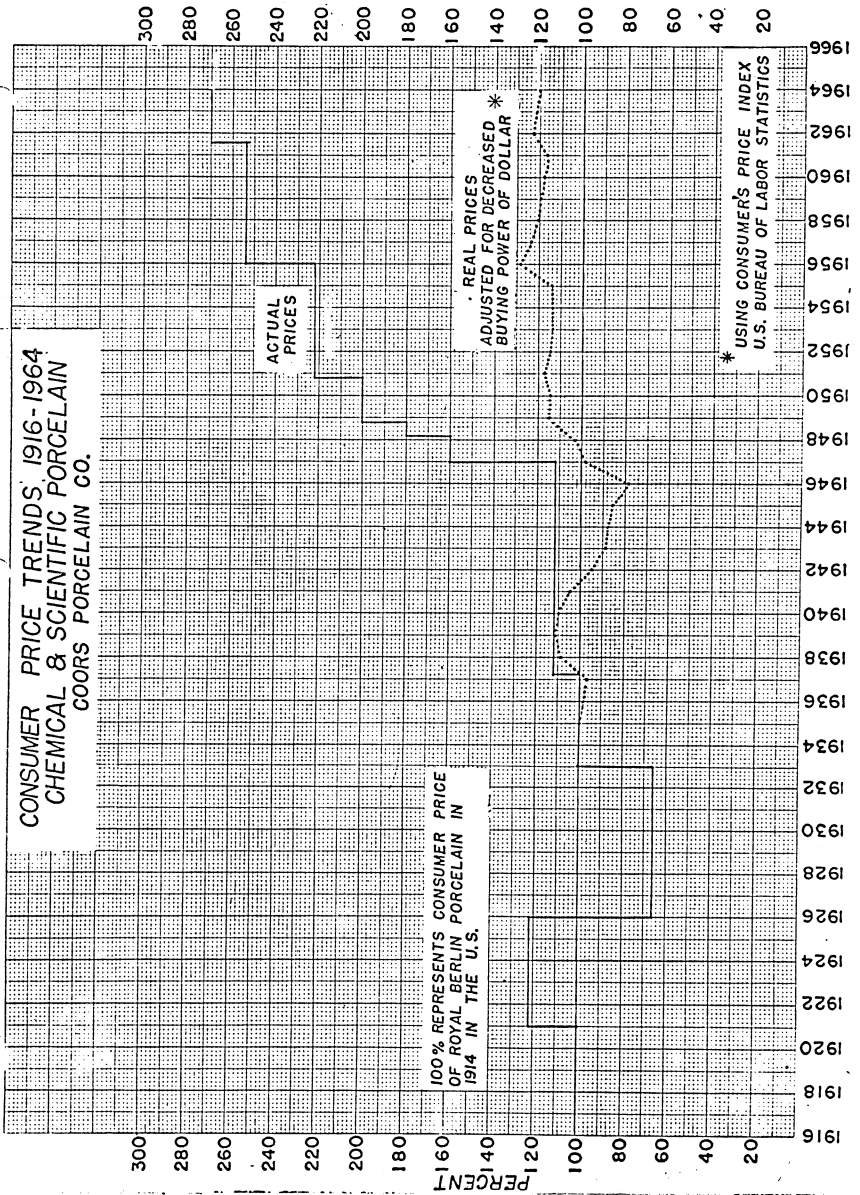
Our method of distribution of chemical porcelain is entirely through dealers. These dealers are laboratory supply houses who carry a general line of scientific apparatus which is required in research and control laboratories. They have distribution in all of the United States, plus Puerto Rico, Canada and Mexico. These dealers actually have main offices or branches in 36 of the United States plus the District of Columbia and Puerto Rico. A number of companies have their own branches in Canada and we have one strictly Canadian owned dealer. These dealers have our porcelain listed in their general catalogs and sell through the use of these catalogs plus direct sales forces. A list of these dealers is attached to this brief as Exhibit A.

Sales volume trends

The volume of sales of chemical porcelain by Coors Porcelain Company was \$1,600,000 in 1967. This was the net value to Coors and accordingly, with our discount to dealers averaging approximately 47% of the list price, the sales volume of our dealers was approximately \$3,000,000. The total number of pieces sold during 1967 was 2,557,000 and this is an increase of only 38% over the average number of 1,850,000 pieces sold during the period of 1940 to 1949. Although there has been a gradual and continual growth in volume since the concept of its manufacture in 1916, the actual usage has not increased anywhere nearly as fast as the growth of scientific endeavor in this country. Over the past twenty to thirty years there have been a number of competitive items of other materials which have tended to displace the use of chemical porcelain. Some of these are glassware which was particularly damaging with the advent of Pyrex; plastics such as polyethylene; and some of the better stainless steels which have been introduced and which are capable of replacing porcelain in some of its less severe applications. There has also been the growth of the electronic analytical equipment which has changed the methods in many laboratories over the past fifteen years particularly and has antiquated some of the older techniques which employed chemical porcelain. Since the unit costs of chemical porcelain are necessarily rather high compared to materials such as glass and plastics, and since the costs of chemists and chemical technicians are ever increasing, it certainly can be concluded that there will be continual inroads into the usage of chemical porcelain from these other areas, and particularly from the more modern automated electronic analytical devices.

Pricing trends

On the following page is a chart showing the prices which have been charged for chemical porcelain by Coors Porcelain Company from the year 1916 through 1963. Although the actual prices for this product have increased significantly since 1946, the *real* prices have only gone up 20% in 53 years of operation. These real prices are the actual prices adjusted for the increase in the cost of living as provided by the Consumer Price Index of the U.S. Bureau of Labor Statistics. There has been practically no real price increase during the past fifteen years. This performance has been possible because of technological improvements in methods of manufacture, but also has been forced to a certain extent by the continual threat of foreign competition at lower prices.



Employment

The total number of employees at Coors Porcelain Company as of December 31, 1967, was 1,316. Of these, 105 are directly connected with the daily operations of the chemical porcelain plant and a number of others are indirectly involved through staff functions. Many of these people have been working on chemical porcelain for more than 25 years and they know no other skills. Their jobs would be seriously endangered by any reduction in the protective tariff of chemical porcelain.

Variety of product

Counting all of the shapes and sizes, there are 459 separate items of chemical porcelain in our catalog. In addition to those items which are listed in the catalog and therefore stocked for immediate delivery, about 300 custom made specialties are also made. Some sixty to seventy of these are made for U.S. Government agencies.

A listing of the total numbers of these 459 catalog items which were sold in 1967 is shown in Appendix B. It is of value to note the small numbers that are sold of many of the items. There were less than 10 pieces sold during the year of eleven different items. The largest quantity was for a small crucible, our Number 23005, which sold 265,736. A listing is given below of the number of various items which were sold and the quantity breakdowns:

Number of items:	Number of pieces of each item sold
12-----	0 to 9.
47-----	10 to 49.
45-----	50 to 99.
132-----	100 to 499.
40-----	500 to 999.
141-----	1,000 to 9,999.
36-----	10,000 to 99,999.
6-----	100,000 or more.

Consideration of mechanization and automation

Because of the low volume of a large number of items which are produced, automation is impractical in most cases. A great deal of development effort has been spent in the past 22 years since World War II to mechanize as many of the production lines as possible. New equipment has been installed and new techniques tested out and put into use where feasible. Also, a tremendous amount of improvement has been made in the area of efficiency as measured by the percentage of losses of the various items which are made.

Losses which ranged from 30% to 50% fifteen years ago have been reduced to the area of less than 10% and in many cases only 3% to 5%. Because of this situation there is very little room left for improvement in either the methods or the efficiencies of operations although considerable effort is still being expended in this direction.

For the above reasons there remains a great deal of hand labor involved in the manufacture of chemical porcelain. Approximately 27% of our cost of manufacture is in direct labor and another 26% is involved in indirect payroll. In other words, a total of 53% of all costs is paid out in wages. For this reason, it is quite apparent that comparative wage rates with manufacturers in foreign lands are of extreme importance in the analysis of the competitive picture. This factor will be dealt with in more detail later.

During the past several years our developmental work has produced a new line of high purity alumina ceramic laboratory ware. This is a new laboratory advancement but is not a substitute for chemical porcelain—it is rather a supplement for a number of specialty uses. The volume of this line is still rather small in comparison with the standard chemical porcelain.

Other Coors products

In addition to the manufacture of chemical porcelain, the Coors Porcelain Company is in the business of making and selling a good number of other products. The largest volume is alumina ceramics for electrical and electronic industries as well as for many mechanical applications. Beryllia ceramics are also produced, as are pyrometer and combustion tubes, grinding media and brick linings for ball mill grinders, and other wear resistant products, ceramic coatings, metal-to-ceramic assemblies, nuclear fuel elements and aluminum metal

cans and lids. Our total volume of sales during 1967 was approximately \$15,000,000 and accordingly, the chemical porcelain is slightly more than 10%. This figure compares to our situation in 1946 just after the end of World War II when our business was 90% in chemical porcelain.

Through extensive research and development efforts and the plowing back of earnings into the business, new items have been added from time to time so that even with its continual, slow growth, the percentage of chemical porcelain has steadily declined over the years.

Profitability

Throughout this period of growth, however, the chemical porcelain phase of the business has remained profitable and returns approximately 9% of its own sales volume. Because of the continuing introduction of new products, the profitability of the company as a whole has not been this good and although it varies rather widely from year to year because of the developmental nature of some of the projects which are undertaken, the average for the last ten years has been less than 3% after taxes on over-all sales. This picture would certainly not allow for any reductions in prices of chemical porcelain to meet foreign competition in the case that protective tariffs were lowered.

Fiscal policies

The Coors Porcelain Company is a wholly-owned subsidiary of the Adolph Coors Company, also of Golden, Colorado. The latter is a family owned and controlled corporation which has met the cash needs of its stockholders and its own expansion program from its own operation. Accordingly, it has not been the practice of the Coors Porcelain Company to declare dividends and none has been declared during the past twenty years. Any earnings that have been made are put back into the business in the way of expansion of facilities and research and development effort. Our research and development expenditures are undoubtedly as high or higher than any comparable type of operation, running at the present time at a rate of almost \$800,000 per year. This effort is aimed both at improving the operations which we have at the present time, including those of chemical porcelain, as well as in finding new products and new processes which will be of long range advantage to this company.

History

The Coors Porcelain Company was given its real start in life at the beginning of World War I when the Allied blockade of Germany stopped the importation into the United States of chemical porcelain along with all other kinds of scientific apparatus. This occurred in 1915 and up until that time, all of the chemical porcelain used in this country was imported from Germany. This importation was stopped so completely that work in all chemical laboratories, governmental, educational and industrial, was disastrously affected. The situation was so serious that the United States Government made an appeal to any factories producing chinaware at that time to undertake the manufacture of chemical porcelain. This company, along with approximately twenty-six others, started small scale operations to attempt to learn how to produce these items. Sticking to the goals of the highest quality standards, Coors soon established itself as one of the outstanding manufacturers of chemical porcelain in the world, and as mentioned above, is at the present time the only manufacturer left in the Western Hemisphere.

During the 1930's when German industry was again on the rise and imports started to flow back into this country, it was only possible for this company to survive as the result of the high protective tariffs. If they had not been in existence at that time, the Coors Porcelain Company would undoubtedly have been forced out of the manufacture of chemical porcelain and the United States would have again been left at the beginning of World War II with no supply of this valuable scientific product. The threat of imports is again becoming more and more present as we see manufacturers in both Europe and Japan concentrating on this line of endeavor. Again tariffs will play an extremely important part in keeping this operation alive to maintain a continuing supply of chemical porcelain to the scientists of this country in case of some international conflict in the future. In view of the previous two major wars and the world conditions today, it would be difficult for any of us to assume with any degree of reality that such a conflict could not possibly occur.

Foreign sales

The sales of chemical porcelain to foreign countries direct from Coors Porcelain Company were \$126,000 in 1967, or slightly less than 8% of the total. In addition to this, it is estimated that our dealers sold approximately \$70,000 to foreign consumers directly. Of this amount, some 86% went into Canada and only about \$9,600 or some 14% of this total to Mexico. It is not possible for us to get completely accurate figures from all of our dealers as to their shipments direct to consumers in Canada and Mexico. Although the amount of Coors chemical porcelain shipped into Canada is probably a fairly large percentage of their total usage, the reason for our success in being able to penetrate this market despite adverse foreign price situations is that all but one of the Canadian scientific apparatus dealers are branches of U. S. owned companies. For this reason it is more natural for them to purchase this type of item from the United States and in many cases the purchasing arrangements are actually handled through offices in the United States. The Canadian duty is 22% on the majority of chemical porcelain items. The Mexican duties range from 12.7% to 41.6%, depending on the nature of the item.

Competitive price picture

In order to evaluate the effect of tariffs on the marketing of chemical porcelain, it is important to look at the competitive price situation. The table which is attached as Appendix C shows the prices of several German products as well as the Japanese products and those of Coors Porcelain Company before the duty was reduced from 60% to 54%. These figures indicate quite clearly that in some of the more popular items, such as crucibles and evaporating dishes, which in many cases were the only ones where foreign prices were available to us, the Coors list price is often double that of the list price of the imports. The column showing Labco is for Japanese ware delivered in the U.S. and duty paid. These are the list prices for which this product is offered to the ultimate consumer and compare with Coors list price. Even with the present 54% tariff, this material is available at a price ranging from 25% to 40% less than ours. The only reason that this has not made inroads into our business is that the ware is of relatively poor quality and also is not supplied in all of the items which are required. It is this kind of pricing, however, which is made available by reduction of our tariff to 30% and if used with the type of quality which is available from one or two of the top European producers, would provide such serious competition that it would be difficult to maintain our position as a supplier in this field.

Comparative wage rates

As mentioned previously, approximately 50% of the cost of our product comes either from direct or indirect labor. For this reason then, it is also important to compare competitive labor rates. The latest rates which we have for foreign countries are for the year 1961 and were compiled by the Business and Defense Services Administration of the Department of Commerce. These show that the average wage rate in the pottery industry is 35¢ per hour in Japan, 61¢ per hour in West Germany, and 48¢ per hour for women and 97¢ per hour for men in the United Kingdom. In our manufacture of chemical porcelain, approximately 75% of the jobs are carried out by female operators and the remainder by male operators. The average for these classifications in the jobs involved at the Coors Porcelain Company is \$1.93 for female operators and \$2.51 for male operators at the present time. In the case of Coors figures, fringe benefits which average in the neighborhood of 50¢ per hour are not included and it is presumed that fringe benefits are not included in the figures for the foreign countries either. In any case, assuming a 10% increase per year in these foreign countries, it can easily be seen that the average wage rates at Coors are two and one-half to three times higher than those in Europe and as much as five times higher than those in Japan. Although wage rates are rising faster in these countries than they are in the United States at the present time, the disparity is still a vast one and cannot be compensated for to any large extent by productivity. Until wage rates and the corresponding costs of living tend to equalize in the various countries of the world, it will not be possible to manufacture high labor cost items such as chemical porcelain in this country on a competitive basis with these foreign countries. Protective tariffs are therefore absolutely necessary if this industry is going to be preserved in the near future.

Problems in foreign competition

To help substantiate the problems of competing with foreign products with the extreme price differential, we are attaching as Exhibit D a letter from a dealer in Holland and as Exhibit E a letter from a scientific apparatus dealer in England. The significant factors in the letter from Holland are: "We know from experience that your quality is the best of all to be obtained in the world since at the end of the war we have sold your porcelain—but later on we have been compelled to drop your porcelain as soon as the German factories were getting again at the market, supplying satisfactory qualities and much cheaper than yours." The significant part of the English letter is: "We feel sure you will appreciate that this makes the position of marketing your lines, particularly with regard to import duties, etc., extremely uncompetitive." In other words, it has proven completely impossible to sell in European markets even with what is considered by many to be a superior product, with the wide disparity of prices. This same situation would occur in the United States if the tariffs were to be dropped to the point that the same competitive disadvantage existed for our product.

Foreign imports

The large increase in imports under tariff item 535 2100 of 1965-66 indicates that more serious inroads into the domestic market can be expected. Rising costs in both labor and materials make competition even more difficult.

Vital to national defense

Although no mention has previously been made of this fact, chemical porcelain plays an extremely important part in our over-all defense effort. This information has been established so thoroughly over the past years that in the U.S. Tariff Commission's "Summaries of Tariff Information", Volume II, Part 1, Paragraph 212, Page 178, last published in 1948, the statement is made "Chemical porcelain is vital in national defense."

In this same respect, there is attached as Exhibit F, copies of a letter from the late Senator Eugene Milliken of Colorado addressed to the Chairman of the Interdepartmental Committee on Trade Agreements of the Department of State. This letter was written in 1950 and states "I am utterly astonished that chemical porcelain, which is widely recognized as absolutely essential to national defense and which is produced by only one company in the United States, would be placed on this list." He was referring at that time to the list of commodities on which the United States was considering negotiating tariff reductions.

Effect of tariff reduction

There is little question that if the protective tariff against the importation of chemical porcelain were to be removed, this segment of our business at Coors Porcelain Company would be destroyed. Of great concern if this were to happen is that the entire Western Hemisphere would be left without a single supplier of chemical porcelain. This was disastrous to our budding young chemical industry in World War I. It certainly would have been disastrous to our entire war effort if it had happened in World War II, and there is surely no one who can claim that it would not be disastrous to the research and development effort required if this country were to again face a world conflict.

It was pointed out above that chemical porcelain of somewhat inferior quality is already available in this country at more than 25% below Coors prices. We have been able to retain our present market only because our consistent quality, ready availability and progressive attitude have convinced the searching scientists that the use of this material would cost him more in unreliable results and costly delays than he would gain by the price advantage. This would certainly not be true if the quality differential did not exist or if the price advantage was such that it could be compensated for. It is quite certain that such a condition would exist if the existing tariffs on chemical porcelain were cut in half.

In view of all that has been presented above, it must certainly be concluded that it would be to the disadvantage of the United States to reduce the tariff on chemical porcelain in such a way that it would destroy an industry which is vital to all the chemical and physical laboratories of this country. Accordingly, we strongly urge that there be no further reduction in the tariffs on chemical porcelain, but on the contrary that import quotas be imposed or tariffs be increased on chemical porcelain.

This supplemental statement is submitted for the purpose of providing information regarding the competitive conditions in Canada and Mexico affecting the Coors Porcelain Company.

CANADA

Laboratory porcelain is imported into Canada under two Canadian classifications. The first is Item No. 288A which includes "chemical porcelain specially compounded to resist acids." This class comprises laboratory chemical porcelain as manufactured by the Coors Porcelain Company as well as chemical stoneware used for laboratory sinks, chemical processing equipment, furnace combustion tubes, jar mills for grinding and some other miscellaneous ceramic products. Some of these items are supplied by a number of firms in the United States.

Canadian customs Item No. 300 encompasses "crucibles and covers" and includes laboratory chemical porcelain crucibles and covers and in addition, crucibles and covers of refractory ceramics, assay crucibles of fire clay and miscellaneous ceramic compositions.

The duty rate under Item 288A is 17½% ad valorem to most favored nations, United Kingdom free. Educational institutions and government agencies import duty-free.

The duty rate under Item 300 is 15% ad valorem to most favored nations, United Kingdom free. Educational institutions and government agencies import duty-free.

It is customary to add about 5% to the price to the consumer in addition to the duty to cover brokers costs on items imported from the United States.

The Canadian market for laboratory equipment is less than 10% of the United States market. There are considerably fewer laboratories and relatively little chemical industry.

At this time one Canadian laboratory supply dealer (The Johns Company) is offering English laboratory porcelain (Royal Worcester). This dealer is not a large company and does not handle Coors Canadian imports from England under Item 288A and 300 amount about 8% of the imports from the United States under the same custom items.

There are several reasons why Coors has successfully competed in Canada against English porcelain available at a lower figure:

1. Coors has been able to supply the Canadian market without interruption since 1917. Canadians have become accustomed to our product.
2. Prompt delivery is offered through ample stocks in Canada.
3. Of six major supply houses in Canada, five of which handle Coors, four are American-owned. Three of these do over 70% of the volume in laboratory porcelain and all are American-owned. One Canadian-owned company sells Coors and one sells English porcelain.
4. The large laboratory dealer catalog, listing 12,000 to 18,000 laboratory items, is a major selling tool in the United States and Canada. Five of these catalogs list Coors and one lists Worcester (English). Several of the dealers use the same catalog in both the United States and Canada.
5. Coors porcelain has been advertised in Canadian magazines and has been exhibited at numerous trade shows in Canada.
6. Much of the Canadian market is in laboratories of American-owned companies and many of the technicians have been trained in laboratories in the United States or have been exposed to the U.S. product.

TABLE I

The following table shows the current comparison in consumer list prices in Canada of Royal Worcester and Coors porcelain. The items listed comprise a typical assortment for a general laboratory. Twelve per cent has been added to the English price for freight and five per cent for handling. Five per cent has been added to the American price for handling.