The price curve then "wobbles" along through the sixties, sending American ranchers out of business at the rate of about 500 per year, at gross auction prices which never again attained anything like former levels of profit. The bar which is inserted to indicate the price-squeeze plateau can be read off to represent the following price averages:

1961 through 1967	$17.19
1961 through 1966	17.71
1960 through 1967	17.98

In any case, the price-squeeze plateau can be taken to represent a rough measure of the cost of production on American ranches, since, at that level, dropouts, or failures, occur consistently from year to year and at a consistent and continuing rate. Specific cost of production data on domestic production is unavailable either from the industry or from the Tariff Commission, presumably because of its confidential nature. It must be noted, however, that true "take-home" prices for the rancher are from $2 to $2.60 less than gross average auction price, from which the rancher must pay an auction selling commission, an association deduction for promotion and market development and other incidental selling charges such as dressing—$1.50—and shipping and insurance.

Continuing with the price curve, 1967 brought another crash market, even more severe than in 1961. Again imports surged upward at upheard-of rates, volume increasing from 4.8 million in 1965 to 5.7 million in 1966, a percentage increase of 16.2 percent in 1 year. In the selling season which followed this tidal wave of imports, that is 1967, the ranchers' gross average price fell below $14, representing a price break of 28.1 percent, and forcing the sale of the 1966 crop far below cost of production.

At the end of the 1967 pelting season 1,000 domestic ranchers liquidated their breeding stock and dropped out, presumably as a direct result of the previous price break, together with the bleak prospects to be faced from a new selling season in 1968 hardly better than the previous one. These recent dropouts represented ranches of the average size of 400–500 breeder females, with a production potential of 1,500 to 2,000 pelts each per annum, well within the specifications spelled out by the Tariff Commission as serious, commercial enterprisers. The magnitude of this loss, spread across the States, can be imagined by remembering that $100 or more of basic investment must be allocated to each breeder female held in production.

Based on the market response from successive selling seasons in 1967 and 1968, and again a far lower base has been drawn across the chart to indicate the disaster plateau—below cost. The casualty list is impressive, and will be described further on figure II following. A glance across figure I now reveals two deeply descending levels of price experience under the weight of which we have lost over half the mink ranchers of record as registered in 1962.

DOMESTIC RANCH PRODUCTION

Running midway across figure I is the dotted curve indicating the volume of domestic mink ranch production, as determined in the recent report of the Tariff Commission, dated April 9. Though this curve continues to rise through 1967 and 1968, remember that the liquidation of breeding stock in the past two seasons from casualties, ranchers, has forced otherwise unexpected quantities of pelts onto the market. For instance, a national board survey just completed, indicates that over half a million breeders were pelted and forced into the market last December alone. This represents a production potential of 1.5 to 2 million pelts, quantities that might otherwise have reached the market in 1969. If the dotted curve were continued into 1969 on the chart we could expect a steep and dramatic decline.

For those who might infer that domestic production has led to oversupply and lower prices, it is interesting to note from the intersections of the import volume curve with that of domestic production that imports have often approached, and at times exceeded the production of American mink ranchers in their own market.

HOSPITALITY GLADLY ACCEPTED

With the gates wide open from duty-free entry, imports, represented on the bottom curve across figure I, have frolicked up the volume stairs through the years, bringing regular, serious and sometimes drastic price depressions to the American market.

After the American ranchers' failure to secure escape clause regulation in 1959, imports exceeded domestic production for the first time in 1961, and with this excessive show of power brought the market crashing down by 23.6 percent, a price break from $21.48 to $16.41. In 1962 import volume dropped and the price curve made a moderate recovery, but in 1963 a new high for imports pulled prices back very nearly to the crash levels of 1961. In 1964 imports leveled off and receded slightly, again permitting moderate price recovery. In 1965 imports resumed their steep climb and domestic prices slumped off to $17.57 about average for the cost-squeeze plateau.

The only aberration in this sensitivity pattern occurred in 1966 when Germany decided to become the world's second largest consumer of mink. In that year the Germans bid up prices in all of the world's markets and ended up with about 5½ million pelts, pricing themselves out of the market. This unforeseen development allowed for the sale of the domestic ranchers' crop at a figure of $19.48, before the staggering import volume of that year became recognized as a factor of oversupply. Import volume advanced from 4,882,000 in 1965 to 5,675,000 in 1966, creating a vast carryover at trade levels, and setting the stage for the crash in prices which became apparent already in the December sales of that year.

It has been estimated by trade experts that 1½ million pelts backed up at trade levels in the United States and another 2 million lay dormant in the European market.

With a price break of 28.1 percent, and considering the massive carryover stocks threatening the opening of a new season, it is hardly a surprise to find the import curve in 1967 relaxing by 4.38 percent.

Looking at the import volume curve from 1960 onward, it is obvious to us that it has exerted continuous pressure on the price curve, which has been immediately responsive to import volume in every one of the years.

In the brief span of years illustrated by figure I, imports, which accounted for 42 percent of domestic consumption in the days of the profit plateau (1953–57 average), have now captured 11 more percentage points of the American market (1963–67 average), as determined by the Tariff Commission, and now command more than half of the mink ranchers' own market (53 percent), as determined recently by the Tariff Commission.

LETHAL COMPETITION

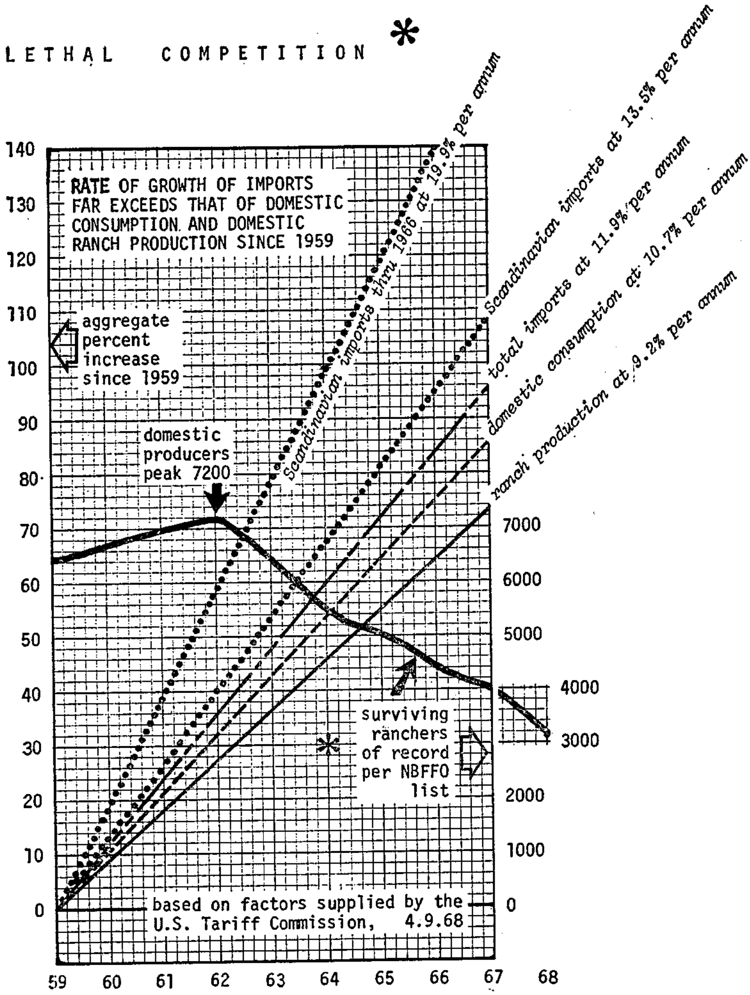
Mr. Chairman, the effect of this foreign competition on the domestic producer can be stated very simply—it is lethal. Figure 2, overleaf, titled "Rate of Growth of Imports Far Exceeds That of Domestic Consumption and Domestic Ranch Production Since 1959" (p. 4026), simply summarizes the economic activity described in Figure I (p. 4022).

Since the message got around after the Tariff Commission finding of 1959 that the American producer was to remain exposed to duty-free entry, imports have doubled, prices have fallen more than 33 percent, ranchers have lost 11 more percentage points of a market which they originated and built, and 56 percent of the domestic producers have been annihilated. Domestic production, far from oversupplying its own market, lags far behind the growth of domestic consumption. In recent years our principal foreign competitor, the Scandinavian bloc, has been increasing its "take" of the American market at an average annual rate of nearly 20 percent.

FOR THE SURVIVORS

In the early weeks of the 90th Congress, the National Board of Fur Farm Organizations, after searching in vain for administrative relief from excessive, duty-free imports, approached Congress through Congressman Burke of Massachusetts, who introduced H.R. 6694, requesting a simple device to help correct the situation. This bill, in effect, asks for a freezing of the status quo, allocating a 40-percent share of the American market to imports, and arresting further encroachment into what the rancher feels is his rightful domain. Future growth of the American market would thus be shared with imports in the ratio of 40–60. With further encroachment arrested, the American marketing associations would then be in a strong position to go back to surviving ranchers to raise the funds necessary to rebuild the market and to stimulate exports, which show encouraging growth potential and gold earning potential. Without such promotional funds, which must be extracted from ranchers' sales proceeds, the domestic producer's share of the American, and indeed, the world market, could only be expected to die slowly on the vine, strangled year after year by increasing quantities of cheap and inferior mink. At some point, not too distant, the ascendancy of the cheap foreign mink merchandised to a vast new army of nonprestige consumers, would itself bring about the total eclipse of mink as a prestige fur, and thus also the eclipse of the fur industry.

Mr. Chairman, I am happy to report that congressional response has been most encouraging, and we have found to date 84 cosponsoring Senators and Congressmen, involved directly with bills, and many others waiting in the wings to help in other ways. There are 58 bills pending before your committee, largely identical to the pilot bill from Mr. Burke, H.R. 6694.



* LETHAL COMPETITION - Of the 7200 domestic producers listed in the peak year of 1962 with the National Board, 3159 were surviving as of this past February, six years later, a loss of 56 percent. More than 4000 mink ranches dropped out at an average annual rate of 9.36 percent, a fall-out of 673 ranches for each of the years since 1962. Over 1000 ranchers pelted out in the last six months.

FIGURE 2

I have a notice here, Mr. Chairman, that my time is up. Shall I continue or not?

The CHAIRMAN. Finish your statement.

Mr. HENDERSON. Thank you, sir. Of the slight variations to be found among these bills, two call for a 30–70 ratio in sharing the market with imports. An important modification of our original approach is to be found in H.R. 13399, introduced by Congressman Lloyd of Utah and sponsored by our constituent, Great Lakes Mink Association. It requests the removal of dressed mink from the quota, to be placed under a separate bracket requiring a 50-percent ad valorem duty. This is in direct response to the great danger, now developing in Europe, of counterfeiting the natural color of fine dark mink, and perhaps mutations, by dressing cheap inferior foreign mink with a new chemical process able to imitate the best of natural color, until now the special province of skilled American breeders.

Although the quantity of imported dressed mink is not now substantial, the availability of vast quantities of cheap dark mink in Europe, coupled with far cheaper dressing charges from plants using the new counterfeiting methods, could produce an avalanche of such dressed imitations overnight.

TIME RUNS OUT

Eighteen months have now elapsed since the American rancher approached Congress for relief. In that 18 months he has been through two disastrous marketing seasons, selling his crops largely below cost of production. Under such circumstances credit resources are evaporating rapidly, especially since the performance record of the industry, characterized by the failure of over 1,000 producers in the last 6 months, indicates to lenders a hazardous road ahead for production loans. The market itself, on the disaster plateau as described earlier, remains as was the case last year at about $14 gross. To be exact, we have compiled total pelt sales from the two New York auction houses, first for the 1966–67 season to June 1, showing an average of $14.95; and for the 1697–68 season to the same point, June 1, showing an average of $15.50. The difference of 55 cents can hardly be considered an improvement, considering that many odd lots and low ends remain yet to be sold in the cleanup of the season.

Certainly there are now abundant facts by which all interested parties may judge the merits of our case. Extensive congressional support has been provided through 84 cosponsorships from 29 different States. We have been the subject of extensive investigation by the Tariff Commission, as requested by the President. The stage is set.

We now implore your committee to take this matter under consideration, not only in the cold terms of economic theory, but in the warm, human terms of families and of fathers and sons and of deserving and hard-working citizens of this Republic. The loss of ranches and of lifesavings, the displacement of earning power and self-reliance is already vast.

Please give it your best attention.

Thank you, Mr. Chairman.

(The information referred to follows:)

SPONSORSHIP OF MINK IMPORT CONTROLS IN THE 90TH CONG., MAR. 1, 1968

State	Sponsor	Bill No.
Arizona	John J. Rhodes, 1st	H.R. 12908
California	Don H. Clausen, 1st	H.R. 11349
Colorado	Senator Gordon L. Allott	S. 1856
	Senator Peter H. Dominick	S. 1856
	Wayne N. Aspinall, 4th	H.R. 13901
Connecticut	Senator Abraham Ribicoff	S. 1856
	William L. St. Onge, 2d	H.R. 15352
Idaho	Senator Frank Church	S. 1856
	Senator Len B. Jordan	S. 1856
	George V. Hansen, 2d	H.R. 10938
	James A. McClure, 1st	H.R. 13591
Illinois	Senator Everett M. Dirksen	S. 1856
	Frank Annunzio, 7th	H.R. 10739
	Robert McClory, 12th	H.R. 11334
	Dan Rostenkowski, 8th	H.R. 12572
	George E. Shipley, 23d	H.R. 13008
Indiana	Senator Birch E. Bayh	S. 1856
Iowa	Senator Jack Miller	S. 1856
Maine	Peter N. Kyros, 1st	H.R. 13081
Massachusetts	Senator Edward W. Brooke	S. 1856
	James A. Burke, 11th	H.R. 6694
	William H. Bates, 6th	H.R. 10974
	Torbert H. MacDonald, 7th	H.R. 11034
	Harold D. Donohue, 4th	H.R. 12714
	Philip J. Philbin, 3d	H.R. 14370
	Hastings Keith, 12th	H.R. 13903
Michigan	Philip E. Ruppe, 11th	H.R. 10310
	Guy Vander Jagt, 9th	H.R. 12409
Minnesota	Senator Walter F. Mondale	S. 1856
	Senator Eugene J. McCarthy	S. 1856
	Odin Langen, 7th	H.R. 9188
	Ancher Nelsen, 2d	H.R. 9979
	John M. Zwach, 6th	H.R. 10176
	Albert A. Blatnik, 8th	H.R. 13087
Montana	Senator Lee Metcalf	S. 1856
	James F. Battin, 2d	H.R. 12095
Nebraska	Senator R. Lee Hruska	S. 1856
New York	James M. Hanley, 34th	H.R. 11182
	Charles Goodell, 38th	H.R. 11356
	Barber B. Conable, 37th	H.R. 13061
North Carolina	Roy A. Taylor, 11th	H.R. 12872
North Dakota	Thomas S. Kleppe, 2d	H.R. 13182
Ohio	Senator Stephen M. Young	S. 1856
	William E. Minshall, 23d	H.R. 13347
	William H. Harsha, 6th	H.R. 13395
Oregon	Senator Wayne L. Morse	S. 1856
	Senator Mark Hatfield	S. 1856
	Wendell Wyatt, 1st	H.R. 10174
	Al Ullman, 2d	H.R. 10782
Pennsylvania	J. Irving Whalley, 12th	H.R. 11062
	Herman T. Schneebeli, 17th	H.R. 13084
	Joseph Vigorito, 24th	H.R. 13142
Rhode Island	Fernand St Germain, 1st	H.R. 13596
South Dakota	Senator George S. McGovern	S. 1856
	Senator Karl E. Mundt	S. 1856
	E. Y. Berry, 2d	H.R. 10369
	Ben Reifel, 1st	H.R. 11932
Tennessee	John J. Duncan, 2d	H.R. 13177
Utah	Senator Frank Moss	S. 1856
	Senator Wallace F. Bennett	S. 1856
	Laurence J. Burton, 1st	H.R. 10422
	Sherman P. Lloyd, 2d	H.R. 13399
Washington	Senator Warren P. Magnuson	S. 1856
	Senator Henry M. Jackson	S. 1856
	Lloyd Meeds, 2d	H.R. 10920
	Thomas M. Pelly, 1st	H.R. 11111
	Catherine May, 4th	H.R. 11118
	Thomas S. Foley, 5th	H.R. 11192
	Floyd V. Hicks, 6th	H.R. 12868
	Brock Adams, 7th	H.R. 13074
Wisconsin	Senator Gaylord Nelson	S. 1856
	Senator William Proxmire	S. 1856
	Melvin R. Laird, 7th	H.R. 7175
	Vernon Thomson, 3d	H.R. 10303
	Henry Schadeberg, 1st	H.R. 10446
	John W. Byrnes, 8th	H.R. 10274
	Glenn Davis, 9th	H.R. 11300
	William A. Steiger, 6th	H.R. 11340
	Robert W. Kastenmeier, 2d	H.R. 11461
	Alvin E. O'Konski, 10th	H.R. 12195
Wyoming	Senator Clifford P. Hansen	S. 1856
	William Henry Harrison (at large)	H.R. 10670

The CHAIRMAN. Thank you, Mr. Henderson and those at the table with you, for your very fine statement. Any questions of Mr. Henderson? Mr. Byrnes.

Mr. BYRNES. Mr. Chairman, I want to compliment Mr. Henderson and the group here for the statements they have made and the presentation of this problem. I certainly can testify to the distressed state of the mink ranchers. I think it was particularly pertinent that you brought to the attention of the committee, Mr. Henderson, that the American ranchers created the market through the development of the new types, colors, and shades of mink. This whole market has been the product of the sweat and tears of these ranchers.

Do you have the figure as to how much money went into the development of the market that the ranchers themselves contributed through the various associations in advertising campaigns?

Mr. HENDERSON. It is in excess of $22 million, Mr. Byrnes, over the years starting say in 1944, 1945, when the associations began seriously to promote the market.

Mr. BYRNES. Due to the method by which pelts are sold the price is particularly responsive to supply, is it not?

Mr. HENDERSON. Yes, sir.

Mr. BYRNES. More so than in most other commodities because of the fact that you have this auction method of sale. What percentage of your sales are other than through auction?

Mr. HENDERSON. It is my opinion that about 20 to 25 percent of the total domestic production is sold through other than auction outlets.

Mr. BYRNES. But the other 75 percent is sold through auction; isn't it?

Mr. HENDERSON. Yes, sir.

Mr. BYRNES. I think that is all I have at this time.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. I also want to commend you, particularly for the excellent work you did on the graphic material, which I think is some of the best we have seen. It has been said, Mr. Henderson, that the mink ranchers who are going out of business are the small inefficient ones, and that is the reason they are going out of business.

Do you care to respond to that?

Mr. HENDERSON. Yes, sir. In the recent survey which I referred to in my report we had advice of about 1,000 dropouts. Now, out of those 1,000 dropouts, 680 of them were actually measured and confirmed as to the size of the ranch that they conducted the year previous and this averaged out between 400 and 500 females per dropout ranch.

On this basis we assume by using the specifications of the Tariff Commission that these people are bona fide commercial enterprisers where they have a very considerable investment involved in the mink ranching.

Mr. ULLMAN. One of the reasons I think, Mr. Henderson, that there is such strong opposition to quota legislation in furs is because of the auction situation in New York where buyers come from all over the world.

Would an imposition of the quota principle to furs affect the New York auction and the fact that this is the world headquarters for fur pricing and fur selling?

Mr. HENDERSON. This is a difficult question to answer, sir. I am not an auction man but I would assume if the status quo were, in effect, frozen through legislation directing a quota that at least the present situation would be stabilized and this would be a very definite benefit not only to the ranchers but to the buyer, to the trade itself, which requires a stabilization of the price structure in order to operate competitively.

This is one of the requirements of their business. It is very bad for a buyer to have to go into a market and fear that his competitor can come into that market next week or next month and underbuy and therefore permit him to undersell.

Mr. ULLMAN. You have I think a unique situation. I know of no other world pricing system comparable to furs where in effect in the auction in New York the fur producers and buyers from all over the world get together and sell on a completely free market.

I don't think there is any other comparable situation and I am just wondering if you have any information about other nations? Do other nations have quotas and duties on furs and pelts?

Mr. HENDERSON. In general there is very little duty on raw pelts but there is a considerable duty in most of the nations on the importation of dressed pelts. Also I think I got the sense of your question. There are auctions abroad. There are extensive auctions in Scandinavia, Copenhagen, Oslo, Stockholm, and also in London, and these auctions themselves help build a world market price just in the same way that our American auctions do.

Mr. ULLMAN. Is your problem primarily in the raw pelt, or is it in the finished product, or is it in both?

Mr. HENDERSON. It is in the raw pelt.

Mr. ULLMAN. The bills that we have deal only with raw pelts. Therefore, the assumption is that you have no great problem in the area of finished furs?

Mr. HENDERSON. Except for the point that I brought up late in my report, the fact that there is a new dressing process that tends to imitate our colors and therefore would create a threat through the importation of dressed mink.

Except for this we are primarily concerned with the importation of raw pelts.

Mr. ULLMAN. That is your primary concern?

Mr. HENDERSON. Yes, sir.

Mr. ULLMAN. Do you feel that the New York auction is just one of a number of auctions around that world and that you could still maintain the auction if you had a quota system in effect?

Mr. HENDERSON. Without any question.

Mr. ULLMAN. And it would not interfere with the pricing system that has been established in the auction prices to your knowledge?

Mr. HENDERSON. We would assume that it would interfere in the sense that it would stabilize or tend to stabilize prices, sir.

Mr. ULLMAN. Thank you.

The CHAIRMAN. Any further questions?

Mr. BYRNES. Just one question.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. When you have so many business casualties what do they do with their breeding stock? They just pelt it, don't they?

Mr. HENDERSON. Yes, sir.

Mr. BYRNES. So in addition to the imports which have caused the disaster, there is a greater amount of domestic pelts going to the market simply because they are going to the market to be finished in furs rather than held for breeding purposes.

Mr. HENDERSON. Yes.

Mr. BYRNES. The disastrous consequences are snowballed.

Mr. HENDERSON. Yes. This is about the only thing they can liquidate out of a mink ranch that goes out of business.

Mr. BYRNES. You have been in trouble for a long time so that most of the people that are still hanging on—like Harley Wittig here and a few others that are on the borderline—can't stand to hold out very long before salvaging what they can through selling out.

Mr. HENDERSON. Yes, sir. We have been through two disastrous markets in which the price has been largely below cost of production. We have the survivors, which are approximately 3,200 survivors. These people represent the tough, more skillful, more well financed or those people who have better access to credit, let's say, than those that have gone out.

Mr. BYRNES. Am I correct that the auction market makes advance payments to the ranchers in order to weather them through to the pelting time?

Mr. HENDERSON. Yes, sir.

Mr. BYRNES. The advance is then held out of the sale proceeds so that they are really forced into a sale because of their economic situation?

Mr. HENDERSON. In effect they are, yes, sir.

Mr. BYRNES. Thank you.

Mr. BROYHILL. Mr. Chairman.

The CHAIRMAN. Mr. Broyhill.

Mr. BROYHILL. Mr. Henderson, you refer to legislation that you are supporting requiring removal of dressed mink from the quota. What do you mean by dressed mink? Is it the pelt itself, or is it in some other form?

Mr. HENDERSON. The dressed mink is a tanned pelt which is processed and ready for cutting and putting into garments.

Mr. BROYHILL. And that is where they can do the counterfeiting?

Mr. HENDERSON. That is where they can imitate the color of other minks by chemical means and what I call counterfeiting the natural colors that are developed by skillful breeders.

Mr. BROYHILL. What other way could they be shipped which would prevent the counterfeiting? Are they ever shipped in live?

Mr. HENDERSON. No, they are all pelts, sir, either they are shipped in raw or in a dressed state, one of the two.

Mr. BROYHILL. One more question. How much is the markup on a mink pelt by the time it gets to the consumer? You refer to the latest price as being $14.50, $15 per pelt?

Mr. HENDERSON. Gross average for the pelt.

Mr. BROYHILL. What is that costing the consumer normally in the retail market? I mean made into a garment.

Mr. HENDERSON. May I refer that to my colleague, Mr. Westwood, who is president of Emba, and therefore a marketing expert. Mr. Westwood.

Mr. WESTWOOD. I will answer that as best I can. This figure varies and for the reasons that I will explain. You sell a raw pelt or a dressed pelt. It costs $1.50 for the dressing or tanning process. It can go through the hands of a dealer or directly to a manufacturer. Both sit in a sale and buy.

When this reaches the manufacturer he has the manufacturing cost. In order to work mink so they can be fit to a pattern like cloth, the manufacturers use what they call a letting out process or they take a skin that is wide and short and they drop it to the length of a garment to make a strip which is part of the beauty of the garment.

This letting out process is done by slicing the pelt diagonally in strips a quarter inch wide and sliding along and resewing them. There is approximately $10 to $15 labor cost in the manufacture of the garment per skin, so you have the cost of the raw material which we supply, you have the cost of the labor, and so forth that goes into the manufacture of the garment, and you have the cost of the design.

The designer creates the design and the fashions that make this desirable to the woman so you have the cost of the design. In trying to arrive at the answer to your question as to what the price is from the rancher, what the rancher gets, to what the consumer pays in general terms, and this could vary widely, it would be approximately double the price of the raw skin.

Mr. Broyhill. Just double?

Mr. Westwood. At the least double, from there on up, depending on the design, the exclusivity of the design, and reputation and resource of the manufacturer. If a dealer buys it he has to have a markup to the manufacturer. The manufacturer has to distribute it to the stores at a wholesale price. The stores retail it so I would think that double would be a very minimum, probably two and a half or three times the cost, but it would be a justifiable markup.

When it goes through the distribution channels each person that contributes to this, as in other products, is entitled to pay for the part of the service and the thing that he does in the manufacture and distribution.

Mr. Broyhill. What about in the garments where they—I have heard of the letting out process and of mink sides—take the pelt and use only the most luxurious of the fur and make a stole or a full coat, with no other material involved other than possibly the lining.

Would the markup on that garment only be double what the rancher gets? There is not much labor involved in a garment like that, is there?

Mr. Westwood. This business is very competitive, especially with the influx of imported pelts. The fur business is very competitive. The person who can buy a cheaper pelt and put it on the market cheaper by shortcut methods has driven the price down to where actually the product that the woman gets is in many cases not quite as good but she is unable to tell the difference in many cases. The competition of the lower priced pelts coming in and sometimes different methods of——

Mr. Broyhill. Is a $14, $15 pelt a low-priced pelt or is that a good pelt we are talking about?

Mr. Westwood. Last year and this year this is an average priced pelt, which would be a good pelt. It wouldn't be a top pelt, but it would be a good pelt.

Mr. Broyhill. It is seems to me that there is somewhat more than a double markup in this thing.

Mr. Westwood. These skins are not the size of a buffalo hide. The female skin is maybe 18 inches long and a male skin 24 inches long.

It will take for an average coat 50 skins to make this coat so you multiply that and it comes up quite high.

Mr. Broyhill. Mr. Chairman, I am confused enough, so I yield the floor.

Mr. Byrnes. Mr. Chairman, I think we should make the record clear here. In the processing of this fur to be made into a garment there is a tremendous amount of labor cost in this letting out process. It is too bad you don't have a sample here of how that has to be cut in quarter-inch strips and then all sewed back together again. That is the item.

It isn't the rancher that is getting the biggest amount out of these $2,000 and $3,000 mink coats. It is attributable to the costs cutting, sewing, stripping and all the rest of it.

Mr. Westwood. There are several miles of thread used to sew one average mink garment. There is a lot of labor in the slicing and sewing and shaping of a garment and I would think as I talk here that probably three times the cost at these prices would be closer than twice. If you have a $15 pelt and $15 per skin manufacturer cost you have a double there without any markup or anything so probably three times the cost would be a justifiable cost and then this is in general terms.

This is a little out of my field but I think it gets at somewhere the answer to your question.

The Chairman. Mr. Conable.

Mr. Conable. Thank you, Mr. Chairman. Is there a world oversupply of mink pelts at the present time, or is it just in this country?

Mr. Henderson. Is this directed to me?

Mr. Conable. Yes; directed to you, sir.

Mr. Henderson. It depends, Mr. Conable, on how you look at it. Some people say there is an oversupply and some people say there is an underconsumption. Certainly the supply has a great deal to do with the price; and, as we have tried to show here today, the present prices in the American market are below our cost of production.

In that sense there is an oversupply of mink in the United States.

Mr. Conable. Are the same factors true with respect to other furs, or is this an exclusive problem of mink?

Mr. Henderson. Since mink is overwhelmingly the most popular fur it tends to dominate the whole fur industry today and when prices are depressed in the mink industry prices tend to be depressed in all of the other categories of fur.

We found this especially true in the last 2 years, but it could be subject to variations.

Mr. Conable. I would have thought that labor would not be a major problem in the production of mink furs, having gone through some very efficient mink farms in my area, and I wonder why it is possible for European mink farms to undersell our own farms. Perhaps the difference is in the cost of food that you have to give the minks. Perhaps it is in the cost of the land on which the farm is located.

There must be many other factors besides labor; are there not?

Mr. Henderson. May I rise to that?

Mr. Conable. Yes. I am asking you, sir.

Mr. Henderson. I appreciate it. Thank you. It is reputed that our competitors—I am speaking largely of the four Scandinavian countries now—have about 17,000 mink ranchers in those four small countries. Bear in mind we only have 3,200 left in the United States. But these people are producing about 9 million minks a year and the average-size producer produces between 400 and 500 pelts per year.

Now, by our standards this is a moonlighting operation. It doesn't really require very much labor. It is a family deal, a backyard deal, and this is the kind of competitor we are facing.

If you took and analyzed the cost, the going cost of feed and of labor, in the two areas, and lined them up, they would probably come out fairly much the same; but you have to take into consideration that they are moonlighting and that they have very little labor cost.

Mr. CONABLE. May I ask you is fur coming from behind the Iron Curtain any factor in this business? I know the Russians produce a great many furs. Do they flood the world market with cheap furs?

Mr. HENDERSON. The Russians presently produce variously estimated at from 3, 4, 5 million mink per year. They are presently of course prevented from importation into the United States by an embargo, for which we are very, very thankful, but they do tend to depress, in general, world market prices. They market about 2 million mink through regular channels in Leningrad and London each year.

Mr. CONABLE. Well, it is true, is it not, when mink prices are low, here, they tend to be low in the world market as well? Isn't that correct?

Mr. HENDERSON. Yes.

Mr. CONABLE. So our price is a factor of total supply.

Mr. HENDERSON. Yes, sir.

Mr. CONABLE. And is there a time lag roughly of a year between the time when a fur is put on the market and the time when the price hits its bottom? Don't most of our fur ranchers sell their pelts in December, for instance, for almost the entire remaining year?

Mr. HENDERSON. No, sir. There always has been an attempt by the marketing associations of the ranchers to spread the sale over about 6 months in order to avoid oversupplying the market at a given point. This procedure is also followed by the Scandinavian auctions, but there is a tendency naturally on the part of a mink rancher, just like other agricultural producers to get back the cost that he has in this crop and naturally this induces him to sell just as quickly as he can.

Mr. CONABLE. Does he kill his mink in December? Is that it?

Mr. HENDERSON. Most of the mink are pelted from November 15 to say December 10.

Mr. CONABLE. That is what I had in mind then.

Thank you very much.

The CHAIRMAN. Mr. Gilbert.

Mr. GILBERT. I read your statement here and I would like to understand. You practically have an exclusive in the market in the United States on mink and yet the price seems to be going down. You say you can't make ends meet.

I wonder if you would tell me why that condition exists?

Mr. HENDERSON. We feel that the price is depressed by an oversupply. I want to enunicate the word "oversupply" or excessive mink imports. We believe that imports do have a place in our market. They have been proven to us and that is one of the reasons we are asking only for a status quo in this legislation. When these quantities become excessive like they have frequently since 1960 and especially in 1966 the price is depressed to the point where the rancher can no longer recover his cost of production.

Mr. GILBERT. You say that their imports are on the increase, is that your statement?

Mr. HENDERSON. Imports have more than doubled in the last decade.

Mr. GILBERT. You are talking about mink?

Mr. HENDERSON. Yes, sir.

Mr. GILBERT. About what percentage would you say there has been of increase in the imports since 1966?

Mr. HENDERSON. The 1966 imports hit a peak of 5.6 million we will say and last year they receded slightly by a figure of, I think, 4.38 percent. In other words, 1967 imports declined slightly and this is understandable considering the fact that in 1967 the world market for mink in all the world centers was very much demoralized by this quantity, the supply problem.

What they will do in 1968 we don't know yet.

Mr. GILBERT. Wouldn't you think that the fact that we are importing this amount of mink, and you are producing mink it would have a very salutary effect on the market; the competition within the market itself and the promotions that you people are making for the sale of mink have a healthy effect rather than a depressing effect on the market?

Mr. HENDERSON. May I refer that question, sir, to my colleague again, Mr. Westwood.

Mr. WESTWOOD. One thing about mink and what has made it desirable in many cases, especially when new colors are developed and then promoted to the fur trade and to the consumer, is the exclusivity of it. You had a new color. There were not too many and we promoted this as a new fashion color, a natural color, and this created prices that were profitable if the color was desirable.

Sometimes it wasn't. But in fashion and in many fields of luxury some consumers desire a product if it is very exclusive. The more quantities that you put into a market, you sometimes lessen the desirability of certain fashion leaders to use this product because everybody has it, so this oversupply or excessive supply even with extra promotion and advertising sometimes loses its appeal because of the large numbers available.

Mr. GILBERT. I think the fashion houses, for example, and the stylists have been doing a tremendous job in the sale of all fur products bceause after all when a woman buys a fur she is going to keep it for a period of time. It isn't an item that you go out and buy once a year or something. It is something you hold.

Then of course the major thought behind this is that these women then look to change the style, something creative and changing of the fur itself. Considering the fashion industry, I don't see how imports affect your business one bit.

Mr. WESTWOOD. It affects it in this way. When the material was much higher priced the fashion designers were not as prone to experiment with new fashions because they were using expensive material and they didn't want to create something that might not sell. They were less aggressive in changing styles.

When the supply becomes so great that material is cheap they experiment with new fashions and can afford to experiment more and the colors are always absorbed but it is the price that bothers us. You can, I am sure, sell 50 percent more mink in the market than are being produced today but the prices would be at prices far below our cost of production so in order to maintain this supply they would have to be all produced somewhere else.

Mr. GILBERT. What would the cost of a mink coat come to where the mink was imported mink as opposed to the cost of a mink that was made out of domestic skins?

Mr. WESTWOOD. I can only talk in generalities. I spent some time in Europe and the best figures that I could get on cost of production of a mink pelt in Europe was about $10.

In the United States I have heard various figures. I know what it costs some of my neighbors to produce a pelt and I know that some produce for less than others. It depends on many things, but on my own ranch it costs me $17 per pelt to produce a pelt and I feel that I have a good conservative operation. I know that there are some ranchers who can produce for $15 but I don't know of anybody in the United States than can produce a pelt for $10 when they figure all of the costs.

Mr. GILBERT. You say $17 a pelt?

Mr. WESTWOOD. Yes; $17 a pelt is what it costs me to produce a pelt on my own ranch.

Mr. GILBERT. And you say now that it is selling for around $15 on the market?

Mr. WESTWOOD. The average price last year was about $14 a pelt.

Mr. GILBERT. $14.

Mr. WESTWOOD. Yes.

Mr. GILBERT. So I take it from your statement you are losing $3 per pelt.

Mr. WESTWOOD. I didn't say that I was losing $3 per pelt. My cost of production is $17 per pelt. The cost that I have been fortunate enough to get for my own pelt is over $17 a pelt.

Mr. GILBERT. So you get over $17?

Mr. WESTWOOD. Yes, but we are talking in averages now. If the national average price is $14 per pelt some ranchers get more than that. You have to have a balancing number who get less than $14 when you figure it as a gross price and figure the cost of selling and shipping and insurance. That is below the cost of production of anybody that I know of so the average rancher is having to sell below cost of production, not every rancher, but the average rancher. Everybody's pelts are figured in the average.

Mr. GILBERT. I just want to understand. You made a statement here that you are selling pelts at $14 per pelt on the market and it is costing you $17 but you say you are still making money because you sell your pelts for a higher price than the average on the market?

Mr. WESTWOOD. Yes.

Mr. GILBERT. Have you made a cost estimate on these other ranchers that you say are producing mink? Are they $17 a pelt or are they less?

Mr. WESTWOOD. I think that they are less but I don't have anything to substantiate the exact figure. I think that the national average would probably be between $15 and $16. I think that my cost may be slightly higher than the average but I don't have——

Mr. GILBERT. I take it that the industry really isn't losing money as you seem to indicate in your statement here.

Mr. WESTWOOD. Certainly they are losing money. If the average ranchers costs are $15 and the average pelt price is $14 that certainly is, speaking in averages, a loss of a dollar a pelt.

Mr. GILBERT. I don't know where you get your figures from and I don't have any other figures to dispute yours. Actually I am just trying to arrive at an understanding of the problem, but I just can't understand this when it costs a man $17 for an item and he is selling it for $14 and you seem to indicate you get more for your pelt. It may be a $14 average or a $15 average but it may be that the cost of production of other people may be less than the $14 and they may be making money on their product also, which they should be making.

Mr. WESTWOOD. The only thing that I can say is that when I get more than $17 for a pelt this is all figured in the $14 average so somebody down the street is probably getting $8 or $9 for his pelt. We have attempted to arrive at a national average cost of production and haven't been very successful.

We thought the Tariff Commission would come up with this figure, but if they did, they didn't publish it so we don't know what the costs are. We do know that at these prices we are losing between 500 and 1,000 ranchers per year because they can't make it.

Mr. GILBERT. What does the imported pelt sell for?

Mr. WESTWOOD. The price of the pelt imports?

Mr. GILBERT. Yes.

Mr. WESTWOOD. For which year?

Mr. GILBERT. Take 1966.

Mr. WESTWOOD. Do you have that figure, Dave?

Mr. HENDERSON. Sir, in 1955, 5,675,000 pelts imported averaged according to the Commerce Department $12.87.

Mr. GILBERT. Per pelt?

Mr. HENDERSON. That average fell down about $2 in 1967.

Mr. GILBERT. Why would there be a cheaper price for the imported pelt as opposed to the domestic pelt? Why would there be that difference?

Mr. HENDERSON. Let me put it this way. The average value of the domestic pelt has sold for about 50-percent more than the average value of imports and of course this is a reflection of the relative value of the two types of pelts and the quality. The price is a measure of the quality and the size and so on and so forth.

It is our fear that if too many of these inferior type pelts come into the United States they will destroy the very prestige image by reason of their price which we have created through the years.

Mr. GILBERT. You say the American product is a superior product to the foreign product.

Mr. HENDERSON. Very definitely and the figures prove this year after year.

Mr. GILBERT. Well, isn't there a difference in quality even in the American pelt? You are talking about your average.

Mr. HENDERSON. Yes.

Mr. GILBERT. Have you taken that into consideration as to the quality of the particular pelt and the price line for each pelt because a pelt that is superior in quality is naturally going to sell for more, like your product is apparently a far superior product than maybe some of your neighbors who get a lesser price for it because their pelt isn't as good as yours.

Mr. WESTWOOD. Still in spite of that ranchers, many ranchers, have not recovered the cost of production for their pelts the last 2 years because of the number.

Mr. GILBERT. I was speaking with some people in the fur industry. They tell me, and I don't know too much about it—that in certain areas of the country they produce a far superior pelt than in other areas of the country.

Mr. BYRNES. That is Wisconsin for one.

Mr. GILBERT. I agree. Is that a factual statement that in some areas of the country they produce a superior pelt than in other areas of the country? I know that Wisconsin produces a beautiful pelt.

Mr. WESTWOOD. I would say there is, but there isn't a drastic difference. It is true there is some difference and this could be for various reasons, but there isn't a real vast difference.

Mr. GILBERT. So that would have some indication, some effect on the average that you are discussing in the way you are pricing this. In other words, would you take your figures and say that pelts of this quality sell for this price and pelts of another quality sell at another price in order to get a true and fair picture?

Mr. WESTWOOD. Yes, but Mother Nature doesn't permit you to raise all top quality pelts.

Mr. GILBERT. I understand that.

Mr. WESTWOOD. There are different grades of them come out.

Mr. GILBERT. They have graded pelts in advance and that is what I wanted to know. When you considered your average price here did you consider the grade of each one? In other words, there would be an average price, and included in that are pelts of superior quality and those that are less and lesser quality. Then you come to a fair and average price but if you are going to lump them all together and you are going to say, well, we are just not getting a fair price for our pelts——

Mr. WESTWOOD. We are talking about an industry and we are concerned about an industry and not one man or one share of his crop.

Mr. GILBERT. That is true but you want to give an accurate picture to this committee so that we can have an understanding of the industry as you know it, the ranchers, and it just isn't all one pelt. There are different grades of pelts that sell for different prices and you get $17 for your pelt because apparently you have a very fine quality pelt.

Mr. WESTWOOD. But I can tell you this: That the spread in price that used to be in high-, medium-, and low-quality pelt has come together in the last few years with the expansion of production all over and the amount of pelts that come into the market. Where a good quality pastel pelt used to average us over $30 last year it averaged in the neighborhood of $12, the same quality, so the producer of better quality merchandise has been hurt as much or more in his relative pelt price.

Mr. GILBERT. Thank you very much.

The CHAIRMAN. Any further questions? Again we thank you gentlemen for bringing to the committee these views.

Mr. HENDERSON. Thank you.

The CHAIRMAN. Mr. Dreisin. Mr. Dreisin, we appreciate having you with the committee this morning and if you will identify yourself and those at the table with you we will be glad to recognize you, sir.

STATEMENT OF EUGENE DREISIN, PRESIDENT, AMERICAN FUR MERCHANTS ASSOCIATION, INC.; ACCOMPANIED BY B. H. HESSEL, MEMBER, FOREIGN TRADE COMMITTEE, AND JAMES R. SHARP, COUNSEL

Mr. DREISIN. My name is Eugene Dreisin. I am president of the American Fur Merchants' Association, Inc., of New York, the largest association of fur brokers and dealers in the United States. I am also president of British-American Brokers, Inc., and represent U.S. and foreign fur companies as a broker. I am accompanied by Mr. B. H. Hessel, a member of our Foreign Trade Committee, and Mr. James R. Sharp, counsel for our association.

The CHAIRMAN. We appreciate having you gentlemen with us and you are recognized, sir. If you omit any part of your statement do so with the knowledge that the entire statement will be in the record.

Mr. DREISIN. Thank you very much. I and my association are opposed to the various bills referred to this committee which would impose an import quota on mink furskins. We are also opposed to H.R. 16936, the Herlong bill. There are basic reasons for our opposition.

I have filed our brief and request that it be included in the record. I would like to summarize it for you.

There are basic reasons for our position on these bills or our opposition to these bills.

First. The domestic mink ranching industry is not an isolated industry but a part of the world fur producing industry.

The domestic mink ranchers would induce this committee to believe that they are an industry separate to themselves. They are mistaken. There can be no question but that they are part and parcel of the whole world fur industry and are affected by developments within that industry. I say this advisedly.

The United States has always been a large importer of furs, but the types of furs imported frequently have changed according to fashion and styling demands. Total fur imports are $6 million less today than they were in 1949, and $5 million less than they were in 1959. In dollars, fur imports were $109 million in 1949—$108 million in 1959—and $103 million in 1967.

Thus fur manufacturers in this country today are using about the same amount of imported furs dollarwise as they were 20 years ago. This may surprise you, but it is a fact. It is clearly demonstrated in appendix A to our brief.

What has happened is not an increase in imports of furs over the last 20 years—but instead, due to fashion trends and the development of new furs and dressing techniques—a shift has been made from one fur to another.

Changes in fashion and in the likes and dislikes of women have taken place repeatedly and relatively rapidly. Up to 1949 the U.S. demand for furs was concentrated on Persian lamb, squirrel, muskrat, nutria, rabbit, raccon and foxes.

Today, due to fashion demand 80 percent of the fur market has shifted to mink. And the import picture simply reflects this trend. Our imports in the last 20 years of Persian lambs, muskrats, ermine, martens, squirrels, et cetera, have declined by about 50 percent and in the case of some furs to zero. Their place has been taken by mink.

We find a similar situation in our fur exports. Raccoon and muskrat production in the United States to give you an example, which a few years ago was largely domestically consumed, is now almost entirely shipped abroad to countries where these items have remained in fashion.

Not too long ago we had a substantial U.S. production of silver foxes. Today it is negligible, and there is no demand for silver foxes in the U.S. market. What has happened to Persian lamb, squirrel, muskrat, nutria, rabbit, raccoon, and silver fox? What has happened is mink.

As is demonstrated by the statistics of appendix B of our brief, mink has largely taken over the fur market here, and now a similar shift is taking place in Europe. Mink has developed into not one fur—but into many furs of different color phases, sizes, and qualities. It is the fur which has greater versatility than any of the others produced in this country.

Now your wives and mine, like Mrs. Griffiths of this committee, can find in the mink market in the United States any style, size and color they wish to select. This fur called mink is more adaptable to varieties of styling than any of the fur previously produced or imported from abroad. From short coats to long coats—Twiggy styles to full styles—conservative colors to high-style colors—short garments to long garments—mink runs the gamut.

Another important fact is as the domestic demand for imported furs remained stable, exports of fur from the United States to other countries increased well over 100 percent, from 26 million in 1949 to 65 million in 1967. See appendix A of our brief.

The point I would like to emphasize is that the fur market is a shifting market, shifting with fashion trends and economic conditions from one fur to the other with relative rapidity.

Yet, as shown by appendix C, of our brief, the ratio of U.S. exports of all furs to net U.S. imports of furs has vastly improved from 25.3 percent in 1950 to 68.54 percent in 1967. The shift to mink displaced practically all other furs and the domestic producers of other furs had to go out of business or shift to mink or sell their products for export.

Now—with these facts at hand, let us see if we can understand why it is that some domestic mink producers have a problem. Some have had one—and they have blamed it on imports. The real question here is whether imports are at the bottom of the problem, or whether the problem is, in fact, attributable to other causes.

This brings me to the second point, the domestic mink ranchers' problem.

The problems of the domestic mink ranchers are based on factors largely or wholly unrelated to imports.

Mink is a luxury commodity which is purchasable normally only out of disposable income. That is what people have left over after they have bought the necessities of life. This is not true of mink but of all furs. The dip in prices experienced by the domestic mink ranchers in the 1966–67 selling season was what led them to ask Congress for congressional action to limit imports but this price decline was not unusual in mink in general and not to mink sold by the domestic ranchers.

Mink prices declined that year approximately the same percentage all over the world as clearly demonstrated in Tariff Commission Report and prices of other furs declined equally as much and in some instances much more.

It may surprise you to learn that Alaska seals, to give you just one example, which are not imported at all, suffered a substantially greater price decline that year than did the mink fur skins. The fur market is an international market and it is now primarily a mink market. Shifting demand for minks abroad affects the domestic market just as much as do changes in demands for mink in the domestic market because over one-sixth of all domestic minks is sold to foreign buyers.

The domestic mink ranchers have concentrated to a large extent on the better quality skins, whereas the European producers, largely Scandinavians, have produced a larger proportion of commercial minks.

The Tariff Commission found that imported mink from abroad are used largely in the trimming trade, a trade in which the more expensive skins are used only to a limited extent. Generally, marketing practices in the U.S. auctions have not been adapted to the needs of the European buyers or to the needs of large U.S. buyers.

Controlled prices are maintained in the domestic auctions. This is not the case in the European auctions. In other words, the U.S. rancher decides what price he wants. If he doesn't get it he buys back his skins or holds them out of the market.

I have here a clipping from the Women's Wear Daily of June 24, 1968, which demonstrates the point. I will read the headline and the first two paragraphs of this statement.

LIMITS CURB SALE AT HUDSON BAY AUCTION, NEW YORK

High limits curbed turnover at Friday's windup of the mink sale at Hudson's Bay but, where sold, prices were "very firm" to "stronger" than May levels.

HBC's last sale of the season drew a fair representation of trimmings manufacturers and dealers. However, a good part of the offering were locally owned skins on which the sellers had placed high limits.

European skins are generally sold without any restriction in prices except in emergency conditions. In addition, U.S. ranchers insist on selling their furs dressed. European buyers prefer to buy raw skins preserving for their own labor force the dressing and processing, but the U.S. auctions offer only a few of their skins raw to European buyers who buy here.

The bulk of the ranchers produce small quantities of various colors and qualities. In the United States these quantities are largely sold in small lots for the individual rancher.

In Europe, on the other hand, these small quantities produced by individual farmers are interassorted to make up large lots of strings. All this tends to attract the world's fur buyers to the European auctions and away from U.S. auctions.

I am happy to report that the domestic mink ranchers are now beginning for the first time to examine their marketing practices to determine whether they have been serving their best interests in the past. I think here I should make a point which I have not included in my brief.

There are 32 commodities involved in the bills pending before this committee which would raise duties or import quotas on some 42 percent of this country's dutiable imports. Mink is the only one of these 32 commodities as to which a world market price is set in auctions conducted in the major markets. These are free and open auctions execpt in the United States where the ranchers insist on controlled prices.

In most other auctions throughout the world mink sells for what it will bring based on prices openly and competitively bid by buyers from many countries in the world. Of the world consumption of 32 million mink in 1967 the Tariff Commission reported that the U.S. production was 6 million and that approximately 93 percent of that production or 5,580,000 skins were sold in the U.S. auctions.

The prices realized in these auctions bear little relation to world prices received in European auctions for there are approximately 60 million skins sold in such auctions. For these reasons the domestic mink ranchers are inevitably a part of the world fur market. They cannot isolate themselves.

Domestic prices unless influenced by legislatively created U.S. monopoly or semimonopoly are inevitably geared to world demand and supply. And monopoly can do the U.S. consumer no good and in the long run would be a serious detriment to the U.S. mink rancher, one-sixth of whose production is exported to other countries.

Third, the Tariff Commission study of mink. Aside from the marketing problems the domestic mink ranchers have experienced, they unfortunately have failed to recognize that they are not only a part of the international mink market but also are participants in the international fur market.

The recent exhaustive study by the U.S. Tariff Commission established that the problems of the domestic mink ranchers have resulted largely from economic conditions in the major consuming countries and not from U.S. imports of mink furskins.

Mr. Sharp, counsel for the Scandinavian Fur Agency, will summarize the facts found by the Tariff Commission. There has been some criticism of the Tariff Commission report because it did not explicity state what impact imports had on the domestic mink producers.

Despite this, no one can read this report—and it is an exhaustive report on the subject—and come to any conclusion other than that factors other than imports have been the cause of the difficulties the domestic mink ranchers have occasionally experienced.

Fourth, quotas and embargoes on furs don't work.

I should like to now turn to why, clearly aside from the facts I have recited above, the American Fur Merchants' Association is opposed to import duties on raw mink fur skins, whether it be in the form of specific quota bills now pending before this committee, or the Herlong quota bill.

Experience has taught those of us in the fur industry that with a commodity highly sensitive to styling and fashion in addition to the usual economic factors, quota limitations or embargoes simply don't work. Let's look at a couple of historic examples:

Foxes.—In 1939, production of silver foxes by U.S. ranchers reached 350,000 skins. They were protected by a duty of 37½ percent.

Not being satisfied with this protection the American ranchers at the height of the fashion demand for this fur succeeded in having an import quota of 100,000 skins placed on this fur. In 1951 the ranchers sought further protection and obtained an outright embargo from Congress on all foxes from the Soviet Union.

This was protection at the maximum. Today there are only a few thousand foxes produced in this country and all of them are shipped abroad.

Muskrats.—Soviet muskrats were embargoed in 1951. Since that time production of American muskrats has steadily declined and the American consumption is down to practically zero. The U.S. producers have to find a market now in foreign countries for almost their entire production.

Now, I don't suggest that the decline in these two furs is strictly attributable to the protectionism with which they were surrounded but I do say as a man experienced in the fur industry that the limitations placed on the availability of these skins substantially dampened the interest in these two furs by U.S. fashion markets and the fur manufacturers.

Neither the fashion designers nor the fur manufacturers like to produce lines that might sell well but which involve a commodity the supply of which is limited. They naturally select other items and concentrate their styling and promotional efforts on furs which can be purchased in quantity.

If a mink quota were instituted the U.S. manufacturers of fur-trimmed garments would be forced to cut back their production because the vast bulk of Scandinavian fur skins are of a grade that goes into mink trimming for garments.

The Tariff Commission recently reported and I quote:

> Most of the furskins exported to the United States were of the commercial and low grades; they consisted principally of female furskins, which are smaller and hence lower in unit value than the male furskins of comparable quality.

At page 52 the report states:

> United States imports of mink furskins from Scandinavia consist generally of the standard colors—primarily the commercial grade, and include more female furskins (which are smaller in size) than male furskins.
>
> Imports from Canada customarily have been of a somewhat better quality than have been those from Scandinavia. The bulk of the imported furskins are used to trim cloth coats or are made up into medium-to-low priced fur garments.

Thus a cutback in mink imports would be a crippling blow to the manufacturers of fur-trimmed garments and their workers.

For these reasons my association strongly urges this committee not to report out either the various mink quota bills or the Herlong mathematical quota bill. No one can legislate women's tastes or control the economic development in the major fur-consuming countries of the world.

In conclusion, I wish to join with numerous other witnesses who have appeared there in support of the Trade Expansion Act of 1968 recently introduced at the behest of the administration. It will advance world trade and will, if adopted, help bring to our exporters the great benefits which can be derived from the Kennedy round.

Mr. Chairman, this concludes my statement. I, Mr. Hessel and Mr. Sharp will be glad to answer any questions that you may have. However, since Mr. Sharp whose testimony follows mine may answer some of your questions in his direct testimony it may be you will wish to hear him first and we will all remain here at this table to answer questions you may have. Any extra time I have I yield to Mr. Sharp.

(Mr. Dreisin's prepared statement follows:)

STATEMENT OF EUGENE DREISIN, PRESIDENT, AMERICAN FUR MERCHANTS' ASSOCIATION, INC.

My name is Eugene Dreisin. I am President of the American Fur Merchants' Association, Inc., of New York, the largest association of fur brokers and dealers in the United States. I am also President of British-American Brokers, Inc., and represent United States and foreign fur companies as a broker. I am accompanied by Mr. B. H. Hessel, a member of our Foreign Trade Committee.

I and my Association are opposed to the various bills referred to this Committee which would impose an import quota on mink furskins. We are also opposed to H.R. 16936, the Herlong Bill. There are basic reasons for our opposition.

THE DOMESTIC MINK RANCHING INDUSTRY IS NOT AN ISOLATED INDUSTRY BUT A PART OF THE WORLD FUR PRODUCING INDUSTRY

The domestic mink ranchers would induce this Committee to believe that they are an industry separate to themselves. They are mistaken. There can be no question but that they are part and parcel of the *whole world fur industry* and are affected by developments within that industry. I say this advisedly.

The United States has always been a large importer of furs, but the types of furs imported frequently have changed according to fashion and styling demands. Total fur imports are 6 million dollars *less* today than they were in 1949, and 5 million dollars *less* than they were in 1959. In dollars, fur imports were $109 million in 1949—$108 million in 1959—and $103 million in 1967. Thus fur manufacturers in this country today are using about the same amount of imported furs dollar-wise as they were twenty years ago. This may surprise you, but it is a fact.[1] In passing, I may say, it is impossible for me to present this equation in quantities rather than in dollars. This is for the reason that rabbits, for example—once an important part of the domestic fur-producing industry—are sold in pounds rather than in numbers of skins. Thus statistics as to total numbers of skins are simply not available.

What has happened is not an increase in imports of furs over the last twenty years—but instead, due to fashion trends and the development of new furs and dressing techniques—a shift has been made from one fur to another. Within the category of mink the shift has been from certain colors and qualities to new and different colors and qualities which have intrigued the consuming market and the fashion world.

Changes in fashion and in the likes and dislikes of women have taken place repeatedly and relatively rapidly. Up to 1949 the U.S. demand for furs was concentrated on Persian lamb, squirrel, muskrat, nutria, rabbit, raccoon and foxes. Today, due to fashion demand, 80% of the market *has shifted to mink*. And the import picture simply reflects this trend. Our imports in the last 20 years of Persian lambs, muskrats, ermine, martens, etc., have declined by about 50% and in the case of some furs to zero. Their place has been taken by mink. We find a similar situation in our fur exports. Raccoon and muskrat production in the U.S. to give you an example, which a few years ago was largely domestically consumed, is now almost entirely shipped abroad to countries where these items are in fashion.

Not too long ago we had a substantial U.S. production of silver foxes. Today it is negligible, and there is no demand for silver foxes in the U.S. market. What has happened to Persian lamb, squirrel, muskrat, nutria, rabbit, raccoon and silver fox? What has happened is *mink*! Mink has largely taken over the fur market here,[2] and now a similar shift is taking place in Europe. Mink has developed into not one fur—but into many furs of different color phases, sizes and qualities. It is the fur which has greater versatility than any of the others produced in this country. Now your wives and mine, like Mrs. Griffith of this Committee, can find in the mink market in the United States any style, size and color they wish to select. This fur called *mink* is more adaptable to varieties of styling than any of the furs previously produced or imported from abroad. From short

[1] See Appendix A attached.
[2] See Appendix B attached.

coats to long coats—Twiggy styles to full styles—conservative colors to high-style colors—short garments to long garments—mink runs the gamut.

The shift to mink displaced practically all other furs and the domestic producers of other furs had to go out of business or shift to mink or sell their products for export.

As the aggregate number of imported furs remained stable, *exports* of all furs from the U.S. to other countries increased well over 100%—from $26 million in 1949 to $65 million in 1967.

The point I would like to emphasize is that the fur market is a shifting market, shifting from fashion trends from one fur to the other with relative rapidity, yet as shown by Appendix C attached, the ratio of U.S. exports of all furs to national U.S. imports of furs has vastly improved from 25.3% in 1950 to 68.54% in 1967.

Now . . . with these facts at hand, let us see if we can understand why it is that some domestic mink producers have a problem. Some have had one—and they have blamed it on imports. The real question here is whether imports are at the bottom of the problem, or whether the problem is, in fact, attributable to other causes.

THE DOMESTIC MINK RANCHERS' PROBLEM

Let me take up what *I* think some of the domestic ranchers' major problems are:

1. *Mink Is A Luxury Purchasable Out Of Disposable Income.*—Mink is a commodity which is purchasable normally only out of disposable income. Disposable income is the money people have left over after they have bought the necessities of life. Let's not kid ourselves—all furs are luxuries in a way—and mink particularly is so, for it is higher priced than most other furs. Silver foxes were at one time in demand. Now they are out of fashion here and nobody wants them. Muskrat was at one time a highly acceptable product in the U.S. Now few here want it and it is largely exported..

Changes and rumors of changes in economic conditions here and abroad have an immediate effect upon the demand for mink, as they do for other furs. The extremely unusual price decline in the 1966–67 market season for mink was matched by the same pattern that year *in all furs*. That dip in prices was what originally led to the demand for Congressional action. But it was not just the domestic mink ranchers who experienced a price decline. A price decline in approximately equal percentage occurred in the European mink markets (see Figure 6, p. 57, Tariff Commission Report). And it occurred on a world wide basis with respect to all furs, including, for instance, Alaska seal skins which are only found in the United States and hence not subject to import competition for there are no imports of that fur.

In 1967 total imports of mink skins declined by 400,000, or approximately 8% under imports for the prior year, but the price decline in the U.S. was approximately equal to that experienced abroad. The cause was in the Tariff Commission's language "a retardation in the economic growth of the U.S. and the major mink consuming countries in Europe." This should make it clear that the demand for a luxury product like mink cannot be changed by legislation. Mink is one of many furs traded in the international market . . . a fact of life which the domestic ranchers have not yet been willing to acknowledge. If disposable income in this country and in other major mink consuming countries increases . . . the demand for all furs increases. Styles notwithstanding, if the economic situation in major world mink markets turns sour, the demand for mink and all other furs deteriorates. It is important, in my opinion, as a man who has been engaged in the fur business for many years—that the mink ranchers in this country attempt to acquaint themselves with the facts of the fur market. It is international in character. It always has been and it will always remain so.

There are other facts of life in the fur industry which the domestic mink ranchers have been unwilling to face up to—facts which have controlled their fate—facts which have led to occasional deterioration of the prices they receive for their skins.

2. *U.S. Ranchers Generally Raise Better Class Mink—The Imports Largely Consist of Commercial Mink.*—According to the recent Tariff Commission Report, the American rancher raised 27% of the world production in 1966—while the American market consumed 45% of world production. In recent years imports supplied from 50% to 54% of domestic consumption. This is a large segment indeed. But the American producers have specialized in and exerted their efforts largely toward the production of high quality minks, while the ranchers abroad

have produced larger quantities of commercial qualities, utilized substantially in the trimming trade in the United States and elsewhere. Literally millions of American women are now enjoying the luxury of mink-trimmed garments who could not have known mink had fur manufacturers had to rely solely on the domestic mink sales.

3. *The Controlled Price System of Selling.*—The domestic ranchers have marketed their products largely through mink auction houses at controlled prices. In other words, they have utilized a system under which their furs are withdrawn from the market or bought back by the ranchers for later sale if the price realized at auction is not to their liking. On the other hand, in the auctions of furs produced by the four Scandinavian countries, the policy has been to sell—except in emergency situations—all the mink that is offered by their farmers at the best price that can be obtained at open and free auctions which do not permit hold-backs or maintained prices.

4. *U.S. Skins Sold Dressed—A Disadvantage To The European Buyer.*—In the United States the domestic ranchers sell approximately 70% of all their production in the dressed state—hair-out—and the remaining 30% raw—leather-out. In Europe, 100% of all mink are sold raw—hair-out. You may ask why this makes a difference? The Italian and German buyers who constitute the major market in Europe prefer their own dressing processes and prefer to keep the dressing labor in their own domestic markets. Furthermore, in most countries there are import duties on dressed skins, some of which run as high as 38% *ad valorem*, whereas *raw mink skins are duty free in all countries.* In view of this fact it is hard to understand why domestic ranchers do not offer *raw* skins to European buyers, many of whom attend U.S. auctions.

5. *Interassorting and Sale of Strings.*—In the United States about 80% of our mink are sorted individually for each rancher and put on sale in the auction houses in small lots. In Europe 90% of the mink are interassorted—that is, small lots produced by individual ranchers offering made up of similar quality and color skins are put together in large lots, making it easier for the buyer to select the goods he needs in substantial quantities in a single purchase. Thus in the United States individual lots offered at auction at the major auction houses range from 25 to 70 skins. In Europe, interassorted lots range from 100 to 350, averaging approximately 200.

By reason of the advantages offered in Europe in the marketing of skins to buyers of substantial quantities, the attendance in Scandinavian auctions ranges between 150 to 250 buyers—while in the U.S. auctions 50 to 60 buyers would be a fair attendance.

The U.S. producers of this commodity have been blind to the needs of the manufacturers, dealers and brokers who buy their skins. It takes more time to sort and bundle dressed skins—as compared with raw skins. It costs more money. With auction catalogs in the United States a large buyer must have several men to inspect all the lots offered, whereas in European auctions the lots are larger and one buyer's representative can properly cover a catalog of half a million skins without difficulty.

In European auctions interassorted lots of skins are made up into "strings." The graders at the auction house assort the skins into strings by color and quality and display to potential buyers in advance of the auction a sample lot of the skins making up the string. A buyer can bid on the sample lot he inspected and buy an entire string of skins identical in quality and color to the sample lot, knowing that he will receive a relatively uniform quality and color without having to inspect in advance of the auction the large number of lots making up the string. A string in a European auction may be made up of as many as 5,000 uniform skins. As a result a large buyer in the European auctions will gladly pay a premium for uniformly assorted goods perfectly matched.

These are some of the marketing problems which have brought about the difficulties with which the domestic ranchers are faced—problems which have resulted at times in a more apathetic U.S. market than the Europeans have created.

In my opinion a substantial part of the problem the domestic mink ranchers have experienced may be blamed on marketing practices formulated by the ranchers in cooperation with major U.S. auction houses who sell about 80% to 90% of U.S. production. I am happy to report that the domestic mink ranchers' organizations are now making a serious reassessment of their marketing practices. They are attempting to determine whether these practices have served their best interests.

THE TARIFF COMMISSION'S STUDY OF MINK

Clearly, aside from the marketing problems the domestic mink ranchers have experienced, those ranchers have failed to recognize they are not only a part of the *international* mink market, but also are participants in the *international* fur market. The recent exhaustive study by the U.S. Tariff Commission has established that the problems of the domestic mink ranchers have resulted largely from economic conditions in the major consuming countries and not from U.S. imports of mink furskins.

Mr. Sharp, counsel for the Scandinavian Fur Agency, will summarize the facts found by the Tariff Commission. There has been some criticism of the Tariff Commission report because it did not explicitly state what impact imports had on the domestic mink producers. Despite this, no one can read this report—and it is an exhaustive report on the subject—and come to any conclusion other than that factors *other than imports* have been the cause of the difficulties the domestic mink ranchers have occasionally experienced. As Mr. Sharp will point out, mink imports have increased—but domestic production and consumption of minks have substantially increased in this same period; the unusual price decline experienced by the domestic ranchers in the 1966/67 selling season resulted from 4 factors stated in the Tariff Commission's Report, none of which included imports; the low prices of the 1966/67 selling season have not created a permanent low plateau, but instead, the market failures of that selling season are being overcome and the most recent year's crop has been completely sold and largely cleared. Spokesmen for the domestic industry have recently reported that the "future prospect for the mink industry appear bright indeed".

Mr. Sharp will further point out that while the number of U.S. mink ranchers have declined in recent years, the aggregate production of those remaining has expanded, and that this trend is consistent with all other farm enterprises. He will also call to your attention the fact that with the exception of the 1966/67 selling season, gross ranch income of the commercial ranchers has increased as has the profitability of mink ranching—and that commercial ranchers (who produce 88% of the total U.S. production) have increased 45% in number while the backyard small producers, whose operations are generally not economically viable, have continuously decreased in number.

QUOTAS AND EMBARGOES ON FURS DON'T WORK

I should like now to turn to why, clearly aside from the facts I have recited above, the American Fur Merchants' Association is opposed to import duties on raw mink furskins, whether it be in the form of specific quota bills now pending before this Committee, or the Herlong quota bill. This is because experience has taught those of us in the fur industry that with a commodity highly sensitive to styling and fashion in addition to the usual economic factors, quota limitations or embargoes simply don't work. Let's look at a couple of historic examples:

Foxes.—At one time the American silver fox industry was large and an annual production of 350,000 skins was reached in 1939. Silver foxes were protected by a duty of 37½%. Apparently this tariff was not regarded as providing adequate protection, so in 1939—at the height of its fashion demand—the fox ranchers succeeded in having Congress impose an import quota which limited the importation of foreign-produced silver foxes to 100,000 skins per year. Apparently this was still not enough, and in 1951, on top of the duty and quota—the ranchers succeeded in imposing an outright embargo on all foxes from the Soviet Union.

The import quota, the duty, and the outright embargo on Russian foxes are still on the books—and what is the situation today? Importation of silver foxes is zero.

Truly this is an ideal situation for the domestic rancher. He has eliminated completely all foreign competition and has the market all to himself. But what has actually happened? The annual production of silver foxes in the United States is also down to practically zero. I think there are a few thousand foxes produced in this country—that's all—and today's consumption of silver foxes in the U.S. is completely non-existent.

Surely this did not happen because of excessive imports. No industry can hope for greater protection than the silver fox ranchers had. It is only logical to assume that fashion was the primary determining factor in the disappearance of the silver fox. However, the imposition of import restrictions undoubtedly helped drive the dealing and manufacturing segments of the fur business out of the silver fox field. People in the fur trade who make garments or create fashions tend to shy away from a fur, the free supply of which is curtailed.

Muskrats.—At the time the ranchers succeeded in imposing an outright embargo on Russian silver foxes they also succeeded in embargoing Russian muskrats. The embargo on muskrats is still on the books and today the importation of Russian muskrats is down to zero. Truly an ideal situation for the domestic fur producer for imports of Russian muskrats accounted for over 60% of all muskrat imports. But production of American muskrats steadily declined and by 1965 was down to a little over 4 million skins—a decline of 50% from 1951 when the embargo was imposed. American consumption of muskrats also steadily declined and was down to practically zero by 1966. Today the bulk of the American crop of muskrats (probably 95%) has to be marketed abroad.

If a *mink* quota were instituted, United States' manufacturers of fur-trimmed garments would be forced to cut back their production because the vast bulk of Scandinavian furskins are of a grade that goes into mink-trimmed garments. The Tariff Commission reported:

"Most of the furskins exported to the United States were of the commercial and low grades; they consisted principally of female furskins, which are smaller and hence lower in unit value than the male furskins of comparable quality."

At page 52 the Report states:

"United States' imports of mink furskins from Scandinavia consist generally of the standard colors—primarily the commercial grade, and include more female furskins (which are smaller in size) than male furskins. Imports from Canada customarily have been of a somewhat better quality than have been those from Scandinavia. The bulk of the imported furskins are used to trim cloth coats or are made up into medium-to-low priced fur garments."

Thus a cutback in mink imports would be a crippling blow to the manufacturers of fur-trimmed garments and their workers.

My Association, therefore, strongly urges this Committee not to report out either the various mink quota bills or the Herlong mathematical quota bill. No one can legislate women's tastes.

In conclusion, I wish to join with numerous other witnesses who have appeared here in support of the Trade Expansion Act of 1968 recently introduced at the behest of the Administration. It will advance world trade and will, if adopted, help bring to our exporters the great benefits which can be derived from the Kennedy Round.

Appendix A

RAW—DRESSED—FUR WEARING APPAREL

[In millions of dollars]

Year	Total fur imports	Reexports	Net imports	Total fur exports
1948	164	14	150	31
1949	109	12	96	26
1950	109	13	96	24
1951	114	11	103	32
1952	79	11	68	30
1953	72	12	60	30
1954	72	12	60	31
1955	87	13	74	38
1956	86	14	72	37
1957	86	15	71	43
1958	88	13	75	36
1959	108	17	91	40
1960	109	16	93	47
1961	101	14	87	46
1962	117	16	101	48
1963	128	20	108	62
1964	113	14	99	59
1965	126	11	115	67
1966	142	10	132	71
1967	102	7	95	65

Source: Compiled from U.S. Department of Commerce reports.

Appendix B

IMPORTS OF FURS

[The percentage figures in cols. 1 through 4 represent the percentage of total raw and dressed furs imported in the years shown]

Year	(1) Ranch minks raw and dressed		(2) Persians raw and dressed		(3) Squirrels raw and dressed		(4) Other raw and dressed excluding rabbits		(5) Total
	Percent of total	Units	Percent of total	Units	Percent of total	Units	Percent of total	Units	
1950	2.97	1.058	12.89	4.587	18.56	6.602	65.58	23.328	35.575 units. $94.106.[1] $109.320.[2]
1959	18.03	2.775	14.04	2.161	21.58	3.321	46.35	7.134	15.391 units. $89.286.[1] $107.798.[2]
1960	18.99	2.846	15.68	2.349	27.38	4.103	37.28	5.585	14.983 units. $91.677.[1] $109.196.[2]
1965	38.88	4.856	13.21	1.650	10.68	1.334	37.22	4.649	12.489 units. $103.013.[1] $125.602.[2]
1967	([3])	5.347	([3])	1.168	([3])	.656	([3])		$102.585.[2]
Increase or decrease, 1950 to 1967, in units.		+4.289		−3.419		−5.946		−18.679	−23.086 units. −$6.735.[2]
Increase or decrease in percent of total units from 1950 to 1965.	+36.09		+.32		+7.88		+28.36		

[1] Total furs excluding rabbits.
[2] All furs excluding rabbits but including fur garments.
[3] After 1965 whole raw furskins NSPS were not reported by quantity, therefore percentages of imports thereafter cannot be calculated in units.

Source: Compiled from U.S. Department of Commerce reports.

APPENDIX C

RELATION OF TOTAL FUR EXPORTS TO NET FUR IMPORTS

[Dollar amounts in millions]

Year	Total fur imports	Re-exports	Net imports	Total fur exports	Ratio of exports to net imports (percent)
1950	$109.320	$13.498	$95.822	$24.459	25.53
1959	107.798	16.788	91.010	39.577	43.49
1960	109.196	15.736	93.460	46.944	50.23
1965	125.602	10.695	114.907	67.023	58.33
1967	102.585	7.291	95.294	65.320	68.54

Note: The totals include raw and dressed furs and made-up fur garments.

Source: Compiled from U.S. Department of Commerce reports.

The CHAIRMAN. I am sorry to tell you that you don't have any extra time.

Mr. Sharp, I think it would be better if we recognize you now for the time allotted to you and let you make your statement, then we will question all of you.

You are recognized.

STATEMENT OF JAMES R. SHARP, COUNSEL, THE SCANDINAVIAN FUR AGENCY, INC.; ACCOMPANIED BY B. H. HESSEL, PRESIDENT

Mr. SHARP. Thank you, Mr. Chairman.

Mr. Chairman, my name is James R. Sharp. I am an attorney with offices at 1108 16th Street NW., Washington, D.C., a member of the firm of Sharp, Partridge, Gants, & Perkins. I appear here as counsel for the Scandinavian Fur Agency, Inc., of New York, a New York corporation which has the responsibility of clearing the bulk of the raw mink fur skins shipped to the United States for the account of U.S. fur manufacturers, dealers, and brokers. Those buyers acquire the skins in the open auctions held in Scandinavia. Mr. Hans Hessel, president of Scandinavian Fur Agency, Inc., and a dealer and broker in fur skins of many kinds, sits with us here at the table in order to aid in answering any questions the committee may have.

REASONS FOR OPPOSITION TO QUOTAS ON IMPORTS OF RAW MINK SKINS

My client is opposed to the various bills now pending before this committee which would impose quotas on the importation of mink fur skins. This opposition encompasses not only the specific quota bills, but H.R. 16936 as well, the bill introduced by Representative Herlong, which contains formulas for applying quotas "across the board" on all imported products which come within the percentage tests set forth in the bill.

We oppose these bills because they would be harmful to the fur trade and eventually cost New York its eminent position in the world fur market. Furthermore, the reasons given by the domestic ranchers for the adoption of quota legislation have no validity. All mink quota bills—they would limit imports of raw mink fur skins to a maximum of either 30 or 40 percent of U.S. consumption as estimated by the Secretary of Agriculture—were introduced on the basis of claims made by the ranchers to Members of Congress that as imports rose, domestic prices fell, and as a consequence, large numbers of U.S. mink ranchers have been forced out of business.

The U.S. Tariff Commission, in an exhaustive 6-month study, reported to the President on April 9, 1968. It did not find facts supporting the claims of the domestic ranchers. I have copies of that report here for any member of the committee who may not have received one.

One important fact concerning the nature of this industry should be noted first. The Commission found that while the total number of ranches has decreased from the 6,200 level reported in its 1959 escape clause report to about 3,300 presently, only 50 percent or 1,650 of the remaining 3,300 are commercial producers. This amounts to an increase of 45 percent over the number of commercial ranchers in business in 1959. The Commission found that these 1,650 commercial producers raise 88 percent of the total U.S. ranch mink production, and that the remaining 1,650 of the ranchers are "backyard" or "small" noncommercial producers or, as Mr. Henderson described them, moonlighters, generating only 12 percent of total U.S. production.

It reported—

> * * * successful mink farming requires managing and marketing enterprise, full time labor input, and substantial capital investment. Hence the number of small scale ranchers and so-called backyard operators has decreased.

The Tariff Commission concluded that the decline in small mink ranchers was "consistent with a trend prevailing in other farm enterprises."

More importantly, however, it noted that "aggregate operations of those remaining have expanded" as, it reported, had most other farm enterprises over the past few years. Thus the "drop out" of small ranchers was not in any manner attributed to imports.

Let me summarize other high points of the Tariff Commission's findings:

1. *Price declines were worldwide and domestic declines were not attributable to imports.*—It did not attribute the 1966–67 price declines to imports. Instead, such declines were attributed primarily to a deterioration of economic conditions in the major mink-consuming countries in Europe. The Commission pointed out that mink, a luxury product—

> * * * is particularly susceptible to changes in economic conditions; even small changes in general economic conditions contribute to wide swings in demand and price of mink.

Other factors, but not imports, were contributory. It thus acknowledged the importance of U.S. and world economic conditions and frequent changes in style as the determining factors of the shifting demand in the mink industry. The Commission noted that the bulk of U.S. imports are from Canada and Scandinavia, that such imports are supplemental to U.S. production, and that they tend to expand consumption of finished garments in the United States rather than depress domestic sales of mink skins.

2. *Noncommercial producers have other major sources of income.*—The Commission confirmed that the half of the U.S. ranchers who are small, or "backyard" noncommercial producers, derive their major income from sources other than mink.

3. *Mink is a world commodity and part of the international fur trade.*—The Commission recognized that mink is a world commodity traded in auctions at a world price. Accordingly, it warned against artificially high U.S. prices which could impede exports of domestically produced skins which make up more than one-sixth of sales of domestic production.

4. *The domestic production has expanded rapidly.*—It found that the domestic ranch industry has expanded at a substantial rate from 4.3 million skins in 1963 to 6 million in 1967; that U.S. consumption rose from 8 million skins in 1963 to 10.2 million in 1967.

5. *The domestic industry has generally been a profitable one.*—The Commission's analysis of financial reports gathered from the industry showed that profitability of the U.S. industry rose from 11.3 percent of gross income in 1963 to 15.7 percent in 1966—I might say that in many businesses that is a pretty good margin of profit—and that despite the substantial increase in imports over the past 10 years, the domestic commercial mink industry enjoyed an increase in gross income from $77 million in 1963 to $104 million in 1966, a period during which the number of commercial producers was steadily increasing at the expense of the small backyard producers.

These facts taken together certainly do not spell out a case in which this committee should intervene to provide legislative relief. If the domestic mink ranching industry should be subsidized by the Federal Government—and the cost thereof thereby spread among our taxpayers generally—it should be for some reason other than the impact of imports upon that industry.

6. *Imports are largely commercial grades used in the trimming trade.*—Another fact is brought out in the Tariff Commission report which I think is worthy of note by this committee. It is reported in the first full paragraph on page 4 of the Tariff Commission report that—

> The market for mink has broadened substantially. More mink than previously is used for trim and in new styles that differ significantly from the traditional. Mink-trimmed garments utilize furskins of lower quality and smaller size. The new styles require fewer furskins and less labor per unit, thus lowering the cost of a mink garment to the consumer. The broadening market is, at the same time, both a result of and a factor contributing to lower average prices. In the United States imports have been particularly important in furnishing furskins for this segment of the market.

In this connection it is interesting to note that the growth of imports over the past few years has approximately paralleled the growth in the United States of the production of fur-trimmed cloth coats over the period 1956 to 1965. Since mink furskins imported from Scandinavia are used largely in the trimming trade it is obvious that most of the imports have gone into the manufacture of fur-trimmed cloth coats where they are used primarily for collars and on occasion for cuffs.

One knowledgeable witness on this score who appeared before the Tariff Commission was Mr. Abe Feinglass, vice president of the Amalgamated Meat Cutters & Butcher Workmen of North America, AFL–CIO, who heads the fur and leather department of the Union and represents practically all the labor force in the fur industry. He testified (p. 441–2, Tariff Commission transcript):

> We believe a quota (of the type proposed) would ruin the industry's present prosperity and drastically alter its pattern of long run growth. First, it would

create a monopoly market condition for the rancher. Consumption or demand depends upon the supply available and the relationship of the two basically determine price. Under these quotas, U.S. ranchers could limit total domestic supply by simply reducing their own output. This would drive up the price of pelts and result in substantial profits for the ranchers. They indicated as much in the 1959 hearings, and since then in their trade magazines have reiterated that if they can get help to control the supply, prices will be much higher than in the past. In fact, we believe ranchers could almost peg prices at whatever level is most profitable for them. Gentlemen, we are opposed to the creation of this kind of sellers market, because it would be bad for them and destructive of the rest of the industry.

Secondly, a monopoly market for the mink rancher will only perpetuate a consumer monopoly because only the wealthy will be able to afford their product, whether it be a full mink or a mink accessory. It is a fact that the trimming trade relies heavily on commercial qualities of mink purchased abroad because domestic sources do not produce an adequate quantity of these qualities. This trimming trade has increased substantially in the last ten years, especially for teenagers. A restriction on imports would certainly price us out of this market. I might also add that 3,000 members of our union are now engaged in the trimming industry, and thousands of ladies garment workers who put these trimmings on, and we have only touched the surface of this industry, because there are still millions and millions of garments being produced without trimming that we could give trimming to by developing consumer demand.

In any event, it seems clear from the Tariff Commission's report that the domestic producers of mink furskins have not produced sufficient quantities of commercial grade material which would fit into the tight price pattern which prevails in the cloth coat garment industry. It is also clear that they have not produced the quantities of commercial grade skins required to fill the demand of the trimming industry.

7. *Mink producers sell their goods in the international fur market.*—Mink is an international commodity. It is sold at public auction, generally in the countries where it is raised. Prices are affected by all of the factors which are present in any free market. At page 19 of the Tariff Commission's report it states:

The demand for mink furskins has grown markedly, but unevenly, in recent years. The purchase of a mink garment involves considerable expenditure and the article must compete with other consumer goods for disposable personal income. The purchase of such garments is usually postponable and it is known that the prices of furs change frequently; hence, price and income expectations play an important role in the demand for mink furskins. During the periods when a slowdown in economic growth occurs, such as in the United States and Western Europe during the latter part of 1966 and early 1967, the demand for mink and other fur garments generally declines as does also the price received by domestic producers for furskins.

8. *Developments in the 1967–68 marketing season have resulted in a renewed healthy condition of the mink market and created great optimism for the coming season.*—Finally, gentlemen, let us look at what has happened to imports and to world mink supplies and prices this current marketing season, the results of which could not be included in the Tariff Commission's report because it was rendered too early in the season. Imports are down substantially from the prior levels. The Commission reported (table 4 at p. 70) the following imports for consumption from 1963 through 1967:

Year:	*Million skins*
1963	4.5
1964	4.4
1965	4.9
1966	5.7
1967	5.3

Our estimate of imports for 1968 is under 4.5 million. During the first 4 months of the current year (the only months for which figures are now available) imports of mink furskins were down 508,277, or 18.4 percent under the 1967 level. From Scandinavia the reduction was 356,589 skins, or 19.7 percent less than for the same period in 1967. This is of interest particularly in view of the fact that 1967 imports, as shown by the Tariff Commission's study, were down 400,000 skins, or about 8 percent from 1966. Marketing reports indicate that when final figures for the year 1968 are available, the reduction of imports from the 1967 level of 5.3 million skins will range from somewhere between 16 to 20 percent, which would reduce the 5.3 million level of 1967 to somewhere between 4.25 to 4.5 million. Here are the actual figures as shown by the Department of Commerce reports:

Raw mink furskin imports, all countries

Total imports, January through April 1967	2, 752, 679
Value	$29, 631, 886
Total imports, January throughout April 1968	2, 244, 402
Value	$25, 513, 182
Reduction in numbers	508, 277

Raw mink furskin imports, Scandinavia

Total imports, January through April 1967	1, 817, 985
Value	$19, 470, 894
Total imports, January through April 1968	1, 461, 496
Value	$18, 097, 009
Reduction in numbers	356, 589

Thus, for 2 years in a row since 1966 imports have substantially decreased. Compare this with domestic sales. According to Tariff Commission Table 4, U.S. sales increased, from 1966 to 1967, by 300,000 skins, or 5 percent. We have nothing but market reports to indicate the level of domestic sales for 1968, but it is believed, on the basis of those reports, that the total sales in 1968 will exceed the domestic sales of 1967. Thus the relative share of consumption provided by domestic sales has increased the past 2 years while the share of imports has declined.

At the same time let's look at exports of U.S.-produced mink furskins. Table 4 of the Commission's Report shows that exports of domestic raw skins increased from 1.1 million (out of total production of 5.9 million) in 1966 to 1.3 million in 1967 (out of a production of 6.2 million). Department of Commerce figures for January through April 1967 show the total exports of raw and dressed skins for that 4-month period at 635,904, whereas during the same period this year they increased by 242,435 skins to a level of 878,339, an increase of 38.1 percent over 1967. Thus not only has the domestic share of the total U.S. consumption increased each of the last 2 years, but for each of those same years, U.S. exports of raw mink furskins have increased substantially.

This doesn't seem to me to spell out a picture of an industry in distress. As further evidence of the present condition of the domestic mink producers—and of the fact that there is no present need for legislative relief for this industry—I should like to report to you here the words of the ranchers' own magazine, the National Fur News, for May 1968. The magazine described the complete sellout of all of the current crop at higher prices than in 1967, prices which increased in the latest sales over prices realized early in this marketing season, a trend opposite that experienced in 1966–67 selling season. The magazine predicted—I might say it is attached to the copies of the statement of this particular news article which I filed with the committee—stating that "* * * it is conceivable that the market will face an acute shortage of merchandise well ahead of next season's opening in December."

It concluded "* * * as things now stand, future prospects for the mink industry appear indeed bright."

Mr. Chairman, members of this committee, there may be instances brought before you in which some control on imports is absolutely necessary to protect the domestic producing facilities from rack and ruin. But the facts I have cited establish that the domestic mink industry is in an ideal position to enjoy increasing profitability and to share heavily in the world trade in this commodity. It is not about to go broke as the ranchers unjustifiably claim. The domestic industry had 1 bad year, 1966–67. That bad year was experienced equally by the Canadians, the Scandinavians, and other mink-producing countries. It was a world market depression brought about largely by depressed economic conditions—not simply a domestic depression brought about by imports. Fur prices are on the way back up, and optimism in the industry prevails—despite the fact that the domestic ranchers would like to hide it from this committee. Not only are mink prices on the way up, but prices in the entire fur market recovered substantially this year, and that trend is generally predicted to continue. Accordingly, artificial controls on U.S. imports are not justified by the facts. I am convinced that had the Tariff Commission been holding an escape clause proceeding it would have come to the same conclusion as it did in turning down that relief in 1959—that is, that—

> Undressed mink skins * * * are not being imported in such increased quantities either actual or relative to domestic production, as to cause or threaten serious injury to the domestic industry * * *

That concludes my statement. I appreciate your giving me the time.

(The Fur Newsgram referred to follows:)

[From the National Fur News, May 1968]

FUR NEWSGRAM

THE MINK SITUATION

Since our last report, the accelerate demand for merchandise (both ranch-raised mink and wild furs) continues unabated. Recently *a record offering of approximately 700,000 pelts* achieved a *near sell-out at New York* at *firm levels.* The results of this sale were even more remarkable because it was held immediately following a highly successful sale of approximately 600,000 pelts in the same city.

As this market summary is being written, the April series of mink sales are well under way. Combined quantities in excess of one million pelts appear to be meeting with a continued active response by the trade.

There is no doublt that *current market activity has all the elements of surprise and incredibility,*—particularly as it has emerged following a disappointing early season market both here and abroad.

Responsible observers are quick to point out that domestic and world problems in the areas of economics, finance, social and political change, have seldom been more serious and complex than they are today. Hence, the baffling nature of the current market demand.

In the meantime, judging by the *rapid depletion of the balance of this season's production of mink and wild furs* to date, it is *conceivable* that the market will face *an acute shortage of merchandise* well ahead of next season's opening in December. Ironically enough, the mink producing industry has recently indicated that there will be a *reduction of 15 to 20 percent* in the 1968/69 pelt crop.

Speaking of the resurgence of market activity, it should be emphasized that *Europe* has played *a dominant role from the outset*, and continues to do so. It is not unreasonable to state that overall price levels realized might well have been 10 percent less than those actually registered.

Obviously, as things now stand, *future prospects for the mink industry appear indeed bright.* This should be particularly gratifying to producers who are presently in the midst of a new breeding season.

It is hoped that domestic and world problems (to which reference was made earlier) will be less disturbing in the days ahead. An *era of peace* is *necessary to attain long term stability to all trades* and industries, and the economy as a whole.

GENERAL COMMENTS

The new Emba mutation—"*LILANA*" (pale purple mink)—met with a good *initial response* by the trade. A *top price of $550.00 per pelt* (males) *was recorded.*

The Tariff Commission's report was recently concluded and sent to the White House. No action by the President is anticipated in the near future.

The CHAIRMAN. We thank you, Mr. Sharp.

We thank all of you for bringing to us your views.

Are there any questions of these gentlemen?

Mr. BROYHILL. Mr. Sharp, I do not represent a district that grows mink. I represent a district that uses mink. Of course, in the preceding statement you pointed out that 50 percent of the ranchers are the so-called backyard ranchers raised by moonlighting.

I had thought it might be a good industry to start in my district, even though it is only getting about 12 percent of the market, but then I learned that it was a distressed market, that the ranchers were in trouble.

But you seem to contradict it in your statement. What are the facts in regard to the mink industry? Is it a distressed market or has it been a distressed market? What are the actual facts?

Mr. SHARP. Mr. Broyhill, as Mr. Dreisin testified, there is no doubt that some of the ranchers have had problems at times. The problem essentially has been, of course, the price which they could get for their skins, price of course, determining the amount of profitability in the business.

There can be no question also but that over the last 20 years the cost of production has increased. This is true of the labor, the feed, and the cost of housing.

At the same time there is no question but that there are new mutations which bring extremely high prices when introduced but when produced in large volumes the price declines, the price obtained in the earlier auctions from the fur. The new fur declines and as the price declines it becomes a less popular fur, and the ladies don't like it as well so they turn to other mutations.

Frequently, this results in the fact that a mink rancher will buy at a high price new breeding stock of a new mutation which has just come out and by the time he goes through 3 or 4 or 5 years of producing enough mink to get them on the market in the New York auction that fur is completely out of style.

It either didn't go over good in the first place or the demand simply dropped. Obviously, the mink rancher wants to get as much as he can. But he has to guess as you can see 2, 3, 4, 5 years ahead to get the type of breeding stock which he thinks will be popular in the style and fashion world some years later.

Next, the problem has risen from the fact, as I said in my testimony, that mink is a worldwide product, the world consumption now is reaching around 23 million, with the U.S. producers producing about 6 million of that. Even the U.S. markets are world markets, however.

As economic conditions in a major mink consuming market like Germany go sour as they did in 1965 and 1966 it is bound to affect the farmer here for that substantial market loses its drive and there is more mink available for the rest of the mink consuming countries.

Finally, let's just take a real quick look for an answer to your question.

In 1966–67 there was a depressed market. The price decline suffered, as I said, was not the result of imports. It was a result of economic conditions according to the Tariff Commission, and two or three other factors named on page 4 of the statement none of which include imports.

The year before the U.S. producers received a very high general level of prices as compared with what they did in 1966–67. But this was an unusual situation in that latter year. There are price declines in certain colors almost every year.

One popular new pelt comes up and the price goes up and as the older colors become unpopular colors the prices go down. My answer really is that this industry, I don't think there is any question, was depressed for at least 1 year, I maintain for 1 year only. That was 1966–67 world conditions which depressed all mink and fur industries throughout the world, but it was a temporary one. There is a resurgence of prices currently.

The present market has been such that they have cleared their goods. There is no inventory holdover. As they reported themselves, there is apparently a scarcity of this commodity which we are now faced with.

Mr. BROYHILL. You made several comments about the Tariff Commission and so did Mr. Dreisin. I have heard some criticism of that report that they didn't make any direct comment on the impact of imports of the raw mink skins on the domestic mink producers.

I don't quite follow that criticism in light of what you said in your statement and Mr. Dreisin said in his statement. You were at the hearings. I imagine you testified. Were you not at the hearings?

Mr. SHARP. Well, maybe while the Commission failed to explicitly answer the question of what the impact was of imports on the domestic rancher, it is absolutely clear, Mr. Broyhill, to anyone who will take the time to read that 89-page report, that imports had little, if any, impact at all on the domestic growth, the growth of the domestic rancher's production, on the price, and the profitability and the employment.

The Commission made it clear that the market for mink was a world market with buyers from all over the world attending U.S. auctions and buyers from all over the world including a substantial number of U.S. buyers attending auctions abroad.

Mink isn't just imported into the United States like other products. It is raised abroad and sold abroad to whoever wants to go and buy.

It isn't dumped in the United States but is bought in open competition by buyers from all over the world.

The testimony and the exhibits that were presented at the tariff hearings showed that the domestic industry needed a whipping boy to explain its lack of profitability in the 1966–67 selling season and have blamed it on imports, as many industries have had a habit of doing.

When it came to the proof of the fact, however, the Commission could find no validity in the claims that the import product raised there and sold there, when shipped into the United States caused any of the problems which the domestic mink ranchers find.

So, while they didn't explicitly answer the question, the facts are there for any of you to gather.

Mr. BROYHILL. You attached this newsgram, which appears in the National Fur News, to your prepared statement and referred to it in your statement. I think this was in the April issue.

It gives a very optimistic prediction of what is going to happen this year, that there is going to be a shortage of merchandise.

> * * * it is conceivable that the market will face an acute shortage of merchandise well ahead of next season's opening in December.

This prediction, I imagine, was prepared prior to the publication of the April issue. How has it held up? Do you have any up-to-date figures as to what the future looks like, or what is the present situation as far as the future industry is concerned?

Mr. SHARP. I obviously don't know myself but I can say, Mr. Broyhill, I have here the National Fur News—which is the mink rancher's magazine—for June 1968, and there are a couple of pages here that I think would bring this committee somewhat up to date.

Here is page 23. It is headed, "Market Prices Higher." I will only read the headlines.

"GLMA Dark Mink Up 20 Percent at New York Auction."

"Adkins Black Willow Top at $580."

"Firm Prices, 90 Percent Sellout at HBC Emba May Sale."

"Pastels Jump 10 Percent in Sellout at New York Auction."

"High Sellout at New York Auction (Minn.)"

"Oslo Mink Offering Sold; Males Up 15 Percent, Females 20."

"Good Clearance at Canadian Sale."

"Ranch Mink Action Strong in Montreal."

"Excellent Prices in New York Auction Emba Late April Offering."

I think that is pretty good testimony, but let's take a look at the newsgram in the June issue, the same page that was attached to my statement. I will read the following.

> Market activity continues very strong at the auction level, resulting in heavy clearances of offerings placed before the trade both here and abroad.
>
> It is generally conceded that by the end of the month (May), the current world pelt crop will be approximately 85 percent sold. This has to be considered an astounding development in view of the hesitant and difficult marketing conditions which prevailed from the opening of the season through February.
>
> Recent sales have been characterized by increasing participation of the United States, which has replaced Europe in the dominant purchaser role. Actually, the latter has provided powerful support to the market for a much longer period than usual.
>
> There is little doubt that future demand will continue to place a premium upon better quality pelts; by the same token, it has become crystal clear that mediocre and inferior quality pelts cannot be produced profitably.

Barring unforeseen events, the long-range possibilities for the mink industry are a great deal more encouraging at this moment than they appeared to be this time a year ago. The prospects of fewer pelts, with a corresponding improvement in quality next season, is the logical remedy to most of the mink industry's market problems suffered in recent years.

This is their own words.

Mr. BROYHILL. One final question, Mr. Chairman. This is for you or Mr. Dreisin, one or the other. Mr. Dreisin, I believe you made the statement that mink is a luxury product purchased from disposable income.

Are you suggesting that mink ranchers or the mink industry should be completely indifferent to the nonluxury industry if it could be found that some protection was necessary for them?

Mr. SHARP. No, Mr. Broyhill; I don't. I am frank to say to this committee that if it gets through the emotions that these gentlemen have and looks at the facts which are exhaustively set out in this long report of the Tariff Commission if on the basis of the normal tests which the Tariff Commission and this committee have tried to apply over a period of years as to when an industry is in a distressed condition due to imports, attributable to imports largely, it should give this serious consideration in the light of our overall foreign policy.

Whether it is a luxury industry or whether it would be producing necessities, it would make no difference. The same results should apply. They are well known and in my belief they don't add up to a case of relief in this instance.

The CHAIRMAN. Any further questions? If not, again we thank you gentlemen for your testimony.

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

STATEMENT OF HON. CALVIN L. RAMPTON, GOVERNOR OF UTAH

Chairman Mills and members of this committee, as Governor of the State of Utah, I wish to ask your support of the mink import bills pending before this committee. Mink ranching is an important segment of the Utah economy; however, this industry has been hard hit in recent years because of imported mink.

Using the National Board of Fur Farm Organization's statistical figure of $19.48 for the average domestic pelt price for 1966 and $14.00 for 1967, the economy of the State of Utah dropped by approximately $3,288,000 in 1967. Since nearly all Utah pelts are sold outside the state, this was money coming into the state from outside sources. Prices are up slightly this year, but production had been cut back due to the low prices, so the loss to Utah in 1968 will be equally severe as in 1967.

But the income drop is only part of our loss. Even more serious is the fact that our producers have had to cut back their herds, and some have gone completely out of business. A few are surviving temportarily on their depreciation reserves; and their planned programs of replacement have come to a halt, and old pens are being patched as long as they will hold a mink. By doing this, the rancher saves the money he would be spending for new materials and he reduces his labor force by about one half. But this cost cutting can only be a temporary thing if the rancher is to remain in business very long. Eventually old pens and equipment will have to be replaced. Our ranchers cannot use up their reserves for depreciation and suffer for it later on. Some ranchers have already used up their reserves and credit from selling pelts below cost of production, and these are the ones who have pelted-out their breeding herds. Utah cannot afford to lose this vital industry.

According to the Tariff Commission, in its report to the President dated April 9, 1968, twenty-seven per cent of the world crop is produced by the United States, while 45 per cent of the world crop is consumed by the U.S. In the period of 1953–57, such imports averaged 53 per cent. After Tariff Commission hearings in 1959 denied import relief to United States mink ranchers, there was a sharp rise in the Scandinavian crop of mink pelts, corresponding with a sharp decline in the market in 1961. These lower levels have prevailed ever since and there has been a steady decline in the number of mink ranches in Utah and the United States. With the still lower levels caused by the second sharp break in 1967 and the fear these new levels would establish a new plateau below the cost of production, more ranchers pelted out. There are only 3300 ranches left in the United States against 17,000 in Scandinavia, and the annual rate of increase in production in the United States through 1966 (before the price break) was only 8 per cent compared to 20 per cent in the Scandinavian countries.

Import controls such as those prepared in H.R. 6694 seek to control the imports of mink pelts while still sharing a substantial part of our market with our foreign friends on a duty-free basis.

Mink are native only to North America, and the ranching of these animals originated here. Mink prices are subject to the law of supply and demand. In order to create and maintain a demand for its members' pelts, Emba and other U.S. marketing associations have spent millions of dollars on advertising, promotion, and public relations. Again this year, Emba's budget is over one million dollars. The bulk of this is spent on advertising to reinforce the prestige image of mink—to retain mink as high fashion.

Financing of Emba's program is accomplished by assessment of a percentage of the gross sales of a member's pelts. When prices are high, this assessment is no burden to the rancher. When prices are as low as they have been this season and last, then the assssment percentage must be increased in order to maintain sufficient promotion funds to keep mink fashionable and the market for pelts buoyant. When the increased assessment is added to fixed selling costs, then the cost burden becomes more and more difficult for the rancher to bear.

As the volume of production shrinks, the mink association is faced with the problem of how to maintain adequate advertising and promotion funds. If the selling deduction is again raised, members may be forced out of business at a faster rate. If the deduction is not raised, then the funds available may not be sufficient to keep mink fashionable, to ensure that there is a market for the pelts. The Emba association does not think its members can stand an increase in selling costs.

Mink association advertising and promotion, both here and abroad, over the past twenty-five years has created a demand for all mink, including the cheaper foreign pelts. The leap-frogging increase of foreign production calculated to take advantage of the demand has resulted in a supply in the market which exceeds profitable demand, insofar as the U.S. rancher is concerned. This amounts to a free ride on Emba association advertising when forign pelts are sold in the U.S.

H.R. 6694 and the many similar bills pending before this committee seek to control the imports of mink pelts while still sharing a substantial part of the market with our foreign friends. Our Utah ranchers think these bills are fair, and they support the position of the National Board of Fur Farm organizations in his matter. I ask that you give immediate and favorable consideration to these bills.

Import controls such as proposed in H.R. 6694 would be fair to all, would help correct our nation's balance of payments problems, and would help save this segment of our self-reliant agricultural industry—Mink Farming.

Mr. Chairman, and distinguished members of the committee, on behalf of Utah mink ranchers and the Domestic Mink Farming industry, I wish to thank you for this opportunity of bringing our problems to you.

I earnestly request that you give quick and favorable attention to the bills proposing import controls on mink pelts in order to save the mink industry.

Thank you.

Statement of Hon. George V. Hansen, a Representative in Congress from the State of Idaho

Mr. Chairman, I am very pleased to be here today to testify in behalf of my bill, H.R. 10938 and the many similar bills which have been introduced to provide some degree of relief from imports for domestic mink ranchers. I introduced this bill only after much consideration because I know the general trend is toward freer and freer trade, despite its effects on domestic industries. I felt that the mink problem was special and should be given special consideration.

The domestic industry has lost over 50 per cent of its domestic market and over 50 percent of the domestic ranchers have been forced out of business since 1959. American mink ranchers have spent over $20,000,000 in the last 20 years to create a domestic market for mink. So what happens? Foreigners who have done nothing to create the market are now inundating it with pelts of low quality and lower prices. Domestic ranchers have provided these funds on a self-assessment basis for nearly every pelt they market. The foreign producers have provided little or nothing to the promotion of the "image of mink." The truth is that foreign mink are coming into this country in such quantities and such prices that the domestic rancher is being forced from the ranch. With the reduction in the number of domestic ranchers there is less and less money available to promote mink. If this continues, mink will go the way of fox, otter, raccoon and other non-promoted pelts.

The attrition among domestic mink ranchers is appalling. Twice they have been before the Tariff Commission, but in each instance it was a lesson in futility. In 1959, the National Board of Fur Farm Organizations, the spokesman for the domestic ranchers, sought and received a hearing. At that time there were over 7,000 mink ranchers in the United States. In 1967, after many, many bills had been introduced in the Congress to provide some relief for the domestic mink ranchers, the President directed the Tariff Commission to conduct another investigation of the industry with special emphasis on the impact of imports on the domestic industry. The Tariff Commission compiled many figures, but provided neither conclusions or recommendations for the domestic ranchers. By the time the 1967 hearings had concluded there were only slightly over 3,100 mink ranchers left in the United States. In January, 1967, I had 73 mink ranchers left in the Second District of Idaho and today, according to the National Board I have only 60. At this rate of attrition, it will not take long before there is no domestic mink ranching industry.

Mr. Chairman, many of these ranchers who have been forced out of business have been friends of mine. They generally have their life's savings tied up in the ranch. They have saved to get together equipment to modernize their ranches so they would be competitive with the foreign ranches. Because of the high costs of operating a ranch or farm of any kind in the United States they have been unable to compete. So what happens? There is very little to recover when a mink ranch goes out of business. The breeding herd is pelted out generally and gets a lower price on the market than the regular auction price averages. The pens, watering facilities, sheds and other equipment are almost a total loss. With more and more ranchers going out of business every day there is very little secondary market for this equipment.

It is true that years ago many people got into mink ranching as a side-line or as a hobby. That is no longer true today because this type of rancher is among the first to be washed out. Costs are so high and since few, if any, domestic ranchers have a cost of production low enough to compete it becomes too expensive for a side-line or hobby. Generally, the hobby rancher or the side-line operator was early in the exit from the business. Generally, those ranchers who have been driven out of business in the past year have been commercial or near commercial enterprises. It is estimated by the Tariff Commission that to be "commercial" a rancher must have at least 250 breeder females and produce at least 1,000 pelts per year. A ranch of this size cannot be handled as a side-line or hobby, according to the National Board.

Mr. Chairman, I do hope that some relief can be given to these ranchers. They are tax paying American citizens who have worked hard to create an industry. They are entitled to at least some degree of protection as provided in my bill.

Thank you.

CONGRESS OF THE UNITED STATES,
OFFICE OF THE MINORITY LEADER,
HOUSE OF REPRESENTATIVES,
Washington, D.C. May 27, 1968.

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

DEAR MR. CHAIRMAN: Enclosed is a petition signed by a number of my constituents in Kent County, Michigan, in support of H.R. 6694, "to give a measure of protection from excessive duty-free imports to the domestic mink ranching industry."

I would very much appreciate it if this petition were made a part of the hearings to be held by the Committee beginning June 4.

Your cooperation in this matter is deeply appreciated.

Sincerely,

GERALD R. FORD.

A PETITION TO HON. GERALD FORD, WASHINGTON, D.C., CONGRESSMAN, MICHIGAN EIGHTH DISTRICT

A petition to support and introduce a companion bill to H.R. 6694, to give a measure of protection from excessive duty-free imports to the domestic mink ranching industry.

Since mink ranching is an integral part of the agricultural economy of the DISTRICT and the STATE, and since the industry has been seriously hurt by excessive imports, we request that you actively support this legislation which only assures that we will not lose any more of our domestic market to foreign ranchers who pay no taxes here, pay no labor here, contribute nothing to the area, and elect no public officials here, but do take a FREE RIDE on the extensive market development which our own ranchers have provided for the past many years.

Frankly, we are very disturbed about the manner in which Congress has allowed our agricultural economy to be sacrified to obtain concessions from other countries of the world for American industrial products.

(The signatures are on file with the Committee on Ways and Means.)

GAFCO, INC.,
New York, N.Y., July 15, 1968.

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

DEAR MR. MILLS: The attempts in Congress to place import quotas on mink furskins can only lead to a deterioration of the fur business in this country, with the attendant loss of income due to a reduction of exports which will follow.

Mink skins have always been sold throughout the world in open auctions, shipments of which went duty free to the countries purchasing same.

Imposition of an import quota by the United States would, as past history has shown, create chaos in our industry. We therefore suggest that you be guided by past experience and vote down any attempt to place a quota on mink fur skins.

Sincerely yours,

LOUIS EDELMAN, *Vice President.*

IRVING SEGALL,
New York, N.Y., July 11, 1968.

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

DEAR MR. MILLS: As a dealer in both domestic and imported mink fur skins, I am very apprehensive at the endeavours in Congress to place import quotas on foreign mink skins. Since we import mink skins from foreign countries of the varieties that we need and export our American mink skins in the species and colors that foreign countries require, it is in my opinion to the best interests of the United States to encourage the free flow of raw mink skins on a duty free basis rather than curtail such trade by imposing import quotas.

I therefore respectfully urge you to use your good offices to vote against the imposition of import quotas on mink fur skins.

Very truly yours,

IRVING SEGALL.

JARDOX FUR CO.,
New York, N.Y., July 10, 1968.

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

DEAR MR. MILLS: We have heard about various attempts to impose import quotas on mink furskins and the purpose of this letter is to register our most definite opposition. The fur trade in raw skins is dependent on an unhindered exchange of merchandise without duties or quotas. We have had enough experience in the restricting influence of quotas which in the end will hurt not only the free trade but also the breeders who they are supposed to protect.

I feel certain that your own experience will also cause you to vote against any restrictive legislation.

Very truly yours,

ARTHUR RAPAPORT.

The CHAIRMAN. Mr. Burke.

Mr. BURKE. I would like at this time to introduce into the record a resolution of the Massachusets Governor's Advisory Committee for the Shoe and Leather Industry.

The CHAIRMAN. Without objection, the resolution shall appear in the record at this point.

(The resolution follows:)

THE COMMONWEALTH OF MASSACHUSETTS, DEPARTMENT OF COMMERCE AND DEVELOPMENT, BOSTON

RESOLUTION OF THE GOVERNOR'S ADVISORY COMMITTEE ON THE SHOE AND LEATHER INDUSTRY

The Governor's Advisory Committee for the Shoe and Leather Industry, in meeting on June 11, 1968, expressed concern over the fact that there has been a 47.4 percent increase in the imports of shoes in the first four months of 1968 over the same period of 1967. This increased import of shoes in total is equal to 32.7 percent of the total shoe production (in pairs) in the United States. In the first four months of 1967, the imports of shoes equaled 24 percent of the total shoe production in the United States. This indicates that the imports of shoes from foreign countries increased approximately 30 percent faster in 1968 than in 1967. If this rate of increasing imports continues, the production of foreign-made shoes, sold in the United States, could conceivably equal that of our own production in the United States within a few years.

This trend is causing a marked decrease in the number of people employed in the shoe and leather and allied industries in the Commonwealth of Massachusetts. The 1956 Census of Manufacturers shows a total employment in the shoe and leather and allied industries of 56,000 people. The latest census of 1966 figures shows 39,000 people employed in these industries which is approximately a 30 percent decrease in the total employment in the shoe and leather and allied industries in this period of time. The number of people employed in these industries has further decreased since that time.

At the present time, the shoe and leather industries are providing a large number of jobs for people whose living standards are relatively low or, in other words, for people who live in the poor sections of the larger cities in Massachusetts. The jobs provided by these industries in the ghetto areas are among the better paying jobs for those people who have little or no skill and less than average education. If the employment in the shoe and leather and allied industries in Massachusetts and elsewhere in New England continues to decline at the present rate, many of these people will be added to the unemployment and Social Security rolls. Many companies in these industries that are not able to meet foreign competition because of the difference between the wage levels of foreign manufacturers and domestic manufacturers will be forced out of business.

The Governor's Advisory Committee unanimously recommended, in its meeting on June 11, 1968, in Boston, the passage of the following Resolution:

Be it Resolved that the Governor's Advisory Committee for the Shoe and Leather and Allied Industries recommends to Commissioner T. W. Schulenberg of the Department of Commerce and Development, and to His Excellency John A. Volpe, Governor of the Commonwealth of Massachusetts, That

(1) the Governor advise the Massachusetts members of Congress to recommend to the House Ways and Means Committee, at the present session of Congress, that it act favorably in recommending to the Congress of the United States the passage of H.R. 13616 offered by Congressman Burke of Massachusetts in behalf of himself and Congressman Bates.

(2) that the Governor submit a copy of this Resolution to the Executive Committee and through it to the Board of Directors of the New England Council recommending that the New England Council take action in support of the passage of H.R. 13616, and that it not take any action that contravenes this Resolution.

The CHAIRMAN. Without objection the committee will recess until 2 o'clock this afternoon.

(Whereupon, at 1:25 p.m., the committee recessed to reconvene at 2 p.m. the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. James A. Burke presiding.)

Mr. BURKE. The committee will come to order.

The next industry to be discussed is the leather goods, and our first witness is Alan Goldstein, accompanied by Mark Richardson, Merrill A. Watson, A. Meyer, Jr., Thomas F. Shannon, and Irving R. Glass.

Will you identify yourself for the record and identify each of your associates, and then you may proceed. If you wish to summarize, you can, and your entire statements will appear in the record.

STATEMENT OF ALAN GOLDSTEIN, CHAIRMAN, NATIONAL AFFAIRS COMMITTEE, NATIONAL FOOTWEAR MANUFACTURERS ASSOCIATION; ACCOMPANIED BY MARK RICHARDSON, PRESIDENT; MERRILL A. WATSON, ECONOMIST; AND THOMAS F. SHANNON, COUNSEL; COORDINATING WITH A. MEYER, JR., PRESIDENT, TANNERS' COUNCIL OF AMERICA, INC.; ACCOMPANIED BY IRVING R. GLASS, EXECUTIVE VICE PRESIDENT; AND THOMAS F. SHANNON, COUNSEL

Mr. GOLDSTEIN. Congressman Burke and Congressman Schneebeli, I am Alan Goldstein, chairman of the National Affairs Committee of the National Footwear Manufacturers Association. Seated here with me on my left is Dr. Watson, who is economist for the association and also the immediate past president of the National Footwear Manufacturers Association.

Next to him is Irving Glass, executive vice president of the Tanners' Council.

On my immediate left is Mr. A. Meyer, Jr., who is president of the Tanners' Council and also president of the Gutmann Leather Co. of Chicago.

On my immediate right is Thomas Shannon of Collier, Shannon & Rill, who is counsel of the National Footwear Manufacturers Association and the Tanners' Council; and on the far right is Mark Richardson, who is president of the National Footwear Manufacturers Association.

These associations which I represent manufacture over 90 percent of the footwear made in the United States.

I am also president of the Plymouth Shoe Co., which is a medium-sized men's shoe manufacturing firm employing approximately 700 workers in Middleboro, Mass., a town with a population of approximately 15,000 people. Our weekly payroll, disbursed by the only bank in town, is about $75,000. It is essential to the welfare of this particular community. My company is typical of several hundred companies in hundreds of smaller cities and towns throughout the United States where footwear manufacturing is an important or even major source of income.

I have submitted a detailed brief expressing the views of the associations on the necessity for a program of orderly marketing for footwear imports. I would like to highlight, however, why we we in the footwear industry feel that we need some form of orderly marketing.

We must emphasize that the domestic footwear industry is not "protectionist" as this term is commonly used. We support a liberal trade posture; but our trade policy must come to grips with the realities of the world today. Wage and hour regulations, welfare programs, and general inflation have created a cost structure for our labor-intensive footwear industry which makes it impossible for us to compete with footwear from foreign countries.

I also wonder whether Senator Javits today would have included as nontariff barriers these same basic factors to which I just referred, which is the wage and hour regulations and fringe benefit differentials.

I would also like to say at this time that in reply to Senator Javits' comments about loans for modernization, our domestic footwear industry is as modern, if not more modern, than any other country, and we are not looking for loans for modernization purposes. We are modernizing, as fast as the modernization principles are available to us, from the regular normal source of loans.

I would also like to call to the attention of this committee that most shoe-producing countries of the world have higher tariffs to protect their domestic footwear industries through border taxes, exchange restrictions or licensing, but beyond that we happen to know for a fact that there are 4 to 6 percent rebates on taxes if you export.

This is a factor that is oftentimes ignored as a nontariff barrier.

In spite of this, we ask only for an orderly marketing arrangement, a live-but-let-live policy which permits us to grow in our own market along with the growth of imports.

We are concerned because practically all of the growth in the footwear market over the past decade has gone to imports. Footwear imports rose from 8 million pairs, or 1.3 percent of domestic production, in 1955 to 129 million pairs, or 21.4 percent of domestic production, in 1967. For the first 4 months of 1968, footwear imports amounted to 69 million pairs, or 30.5 percent of domestic production, and we are excluding from these figures so-called zories or cheap rubber sandal types which are used when you take a shower so that we are not putting in zories which has been mentioned in certain testimony that I have read given here a few days ago.

The domestic footwear industry is particularly vulnerable to the increasing flow of imports from behind the iron curtain. Since 1959, Czechoslovakia has stepped up its exports to the United States by almost 1,000 percent. I have here a pair of shoes. One pair of shoes was made in Czechoslovakia. The wholesale price—and we can document each of the wholesale prices to which I refer—is $5.50 in Czechoslovakia. The domestic product is made by Endicott Johnson.

All of you are well aware of the fact that Endicott Johnson can produce shoes as economically as any other producer in the United States. These cost $7.60 except that it goes beyond that because the materials used in the Czechoslovakian shoe are actually superior to the material used in the Endicott Johnson shoe that we have here. It probably has another 50 cents worth of materials or more.

With your permission, Congressman Burke, from time to time I would like Mr .Watson to show you these shoes, if you care to see them, and for the benefit of those who are not here, we hope that in the next few days we will also have these shoes brought to other members of the House Ways and Means Committee who are not here today.

This, to us, is the concrete evidence of what is taking place. It is beyond my conception to understand why we permit this when I read in the newspapers that the largest supplier of munitions to North Vietnam is this same Czechoslovakia.

There is general expectation in the footwear trade, both here and abroad, that economic conditions will continue to encourage a rapid increase in imports. The statistical projection of footwear imports to 1975 indicates that by 1970 we may expect to be importing 291 million pairs and by 1975 as many as 403 million pairs. It is an absolute certainty that as imports move to these levels domestic production will show a distinct downward trend.

This trend is in sharp contrast with that abroad. For example, the EEC countries, in the past decade, doubled their footwear output, and the EFTA countries increased footwear production at least 50 percent. In fact, the percentage gain in footwear output in Great Britain, over the past decade, far outdistanced that of the United States. No doubt this will continue, but possibly at a somewhat slower pace.

It has often been stated that the real reason behind the importation of footwear was style. Nonsense. The Europeans and the Japanese do not have a monopoly on creative imagination. They have a monopoly on one thing, and that is cheap labor.

I might add, as one who has been intimately associated with style, that hand labor is often a vital factor. For example, many of you sitting there right now have worn leather-woven shoes. Is it conceivable that I can pay $2 an hour to weave leather, which is a very simple operation, when in Spain reliable sources indicate that a 16-hour day at 35 to 40 cents an hour, including fringe benefits, is the typical wage-hour structure in footwear?

Incidentally, in Spain, children may work 2 years as apprentices without compensation.

Here in front of me again are a pair of shoes. One shoe, gentlemen, was made in Yugoslavia. The other shoe was made in the United States of comparable quality. You will see that this is all hand labor and all hand weaving. The imported shoe from Yugoslavia is $3.30. The domestic shoe made by a volume manufacturer, a minimum of $6.33, and you can't tell the difference between the two shoes.

The concrete evidence of our contention concerning cheap labor is the tremendous growth of the Spanish footwear industry: from 275,000 pairs exported to the United States in 1959 to 6.7 million pairs in 1967.

Why? As labor costs increased "somewhat" in Italy, importers have run to Spain in order to exploit its cheaper labor, and we have here again another pair of children's shoes, little infant's shoes. They are $1.79 in Spain landed here. They are $2.85 by one of our larger manufacturers in the United States, comparable quality. There isn't one mother in America that would be able to tell the difference, from quality or fit, between these shoes, or she wouldn't know because they would probably be retailing at the same price, and the retailer would be making the additional markup, and by the same token I have shoes that you or your children may be wearing, particularly if they went to Dartmouth. I am a Dartmouth graduate also.

This shoe was made in the United States at a cost of $9. This shoe was made in Spain at a cost of $4.95, and let me tell you that as a shoe manufacturer the material in the domestic shoe at $9 is far inferior to the material in the imported shoe at $4.95, and I will also tell you that there is nothing about style on this shoe. This shoe was brought in because there is a differential of $4 a pair for a better shoe and that is the only reason it was brought in.

This lower cost imported footwear makes it possible for retailers to achieve substantial improvement on markons and profits over domestic footwear. The price differentials between American and imported footwear are bound to continue for years to come. There is every reason, therefore, to expect the flow of imported footwear to the United States to continue at a higher rate.

We hear about vinyl footwear, and you have heard about vinyl footwear not being a substitute for domestic footwear. All we have done is take three Japanese manufactured shoes, and we have reached and secured the comparable footwear in the United States. These three shoes are what they call vinyl footwear.

Here is a little boy's shoe. Here is a young lady's shoe. Your wife would wear it. Your daughter would wear it. Here is a little girl's shoe, if you had a growing little girl. This little girl's shoe differential is $1.10 in Japan; $2.55 in the United States. This woman's shoe is $1.70 in Japan landed here in the United States, $3.80 in the United States; and the little children's shoe, the boy's shoe is $2.25 versus the Japanese shoe of $1.10.

We will give you these shoes because we will tell you that neither you nor anyone in your family would be able to differentiate between these shoes and as you look at these Japanese shoes, ask yourself whether or not they are substitutes for regular footwear since they are regular footwear.

Let me give you another example of how the burden of imports falls most heavily on medium sized concerns like ours making shoes in rural and semirural areas throughout the country.

We concentrate on the teenage and college market since it is, of course, the most dynamic. Sandals, which you are aware of, and in particular the village-type sandals similar to those which I now have in front of me, have become increasingly important because of the "barefoot" trend among college boys and high school boys. Consequently, we believed that they would cut into the sale of handsewn moccasins, an item which is fundamental to our own production, and we therefore decided to manufacture this type of sandal ourselves—a somewhat radical move in light of the fact that sandals have been a major imported item because of lower price.

In order to compete, we established for the first time an assembly line and hired a considerable number of unskilled and semiskilled workers. Our program was successful, and this season we hoped to double or triple our productive forces. I ran into similar items being imported from abroad—so similar that one was an exact duplicate of one of our original styles of last year.

Let me point out to you what we feel is the crux of the situation very simply. We started an assembly line in our factory in 2,000 square feet, with 12 unskilled people, to go ahead and produce this sandal here which we sold successfully the first year. This was our creation. This was a sandal that was actually being sold in the United States in little village shops.

One year later the same people to whom I sold my sandal, creating new jobs, were now able to buy this sandal at $2.30, when the cheapest I could sell my sandal, exact duplicates, was $4, and in order to sell it for $4, I took one-third only of my overhead, one-third of my overhead, and in order to sell it for $4. I went and established an assembly line so I kept the labor as economical as possible; and with that I am a dollar and 70 cents more for an identical product, and if anyone tells me that it is style instead of cost, then here is my sandal this year which is more stylish than any sandal they had in Europe, except that next year this will be copied and this will be $1.70 less.

When a retailer can go ahead and save $1.70 on a $4 item, you tell me which one he is going to buy. We know, because unfortunately just now we have made the decision to close that unit a year and a half after it opened because we no longer can sell our sandal.

Twelve people, which might have been 60 people, in a 2,000-square-foot area are out of work, and there are many areas in our State of Massachusetts, for example, where you could establish 2,000-square-foot areas and put unskilled people to work making sandals, but why should we, when it is impossible under this competition?

Is it any wonder that I and others who have run into similar conditions hesitate to open up new plants in Appalachia or for that matter in any other distressed area?

Footwear imports in 1967 displaced what would have been 43,000 job opportunities.

The Emergency Committee for American Trade, numbering such as IBM and General Motors, carries the banner, "For fairer, but also freer international trade."

I am reading from the Journal of Commerce: "Footwear"—they concluded—"of the nine sectors" studied "was where imports had the biggest impact. ECAT's analysts report that while rising productivity brought about 75 percent of the industry's layoffs, imports contributed 25 percent, or one out of every four jobs lost.

"Changes in the hours worked had only minor effect, ECAT notes."

Of course they make a study to prove the opposite.

If, as expected, imports by 1975 amount to 291 million pairs, they will absorb over 90,000 job opportunities. When the Vietnam war is over and it becomes important to find jobs for our expanding labor force and veterans, the domestic footwear industry will have no new job opportunities; in fact, with production shrinking to absorb the impact of rapidly rising imports, there will be fewer job opportunities than exist today.

This will be particularly serious in view of the need for job opportunities for unskilled labor. In the past, the footwear industry had drawn heavily on the unskilled labor market.

Finally, imports have intensified the severe competition which always existed in an industry of approximately 800 manufacturers. Profit ratios are about half those of manufacturing industry generally, and from 25 to 30 percent regularly report no income to the Internal Revenue Service. While profits in 1968 may show a small improvement over 1967, they would have shown greater improvement if the bulk of the imported footwear had been produced in the United States.

Our industry wholeheartedly supports the orderly marketing bills introduced by Congressman Burke and others. We also support H.R. 16931, the fair international trade bill, and the bill, H.R. 17674, introduced by Congressman Collier. These are not protectionist bills. They are not bills to substantially rollback imports or raise tariffs or provide any other unrealistic treatment of imports under existing world conditions. They are based on a live-but-let-us-live philosophy. They follow the general practices which have prevailed in certain other countries and, in fact, are much fairer than certain of these practices.

In the Washington Post today the headline is "France Warns COMART of New Cuts on Imports," and they have stated, and I am quoting: "Though the exact nature of the import restrictions which France intends to apply has not been revealed, French sources here said they would probably take the form of import quotas" to protect France on highly sensitive industries.

The call for the establishment of mandatory or negotiated quotas when necessary which would guarantee to all nations a fair share of the U.S. market is important. Furthermore, these nations would continue to share in the normal growth of the U.S. market.

In conclusion, we do recognize the necessity for a continuation and expansion of international trade. President Johnson, in extending the duties on glass and carpets on October 11, 1967, said:

> We are keenly aware of the importance of expanding trade. * * * At the same time, we—like other nations—must maintain a fair and just concern for the well-being of those industries and employees who suffer unusual hardship from imports * * *.

Gentlemen, we ask no more than this for the footwear industry. Thank you.

(Mr. Goldstein's prepared statement follows:)

STATEMENT OF ALAN H. GOLDSTEIN, NATIONAL AFFAIRS COMMITTEE, NATIONAL FOOTWEAR MANUFACTURERS ASSOCIATION, AND THE NEW ENGLAND FOOTWEAR ASSOCIATION

My name is Alan Goldstein. I am president of the Plymouth Shoe Company in Middleboro, Massachusetts, and chairman of the National Affairs Committee of the National Footwear Manufacturers Association and its affiliate, the New England Footwear Association. These associations represent over 90 per cent of the footwear production of the United States.

We should like to emphasize at the outset that the domestic footwear industry is not seeking to bar imports and is not "protectionist" in the sense in which the term is commonly used. We recognize the need for a liberal trade posture in the United States, one which will encourage world trade. Such a policy, however, cannot be swallowed whole. It must come to grips with the realities of a world made up, on the one hand, of countries with a mixture of laissez faire and governmental controls and, on the other, a growing number of socialized states.

In the United States our wage and hour regulations, welfare programs, and general inflation have brought about a constantly rising cost structure that has made it impossible for labor-intensive industries such as footwear to compete with manufacturers in other countries.

We are not asking that imports be shut out or even rolled back to the quantities imported in former years. We have recommended a progressive, forward-looking policy well adapted to long-run trade expansion. This is an orderly marketing arrangement which permits foreign countries to share in our market growth.

THE FACTS ON IMPORTS AND EXPORTS OF LEATHER AND VINYL FOOTWEAR

In 1955 imports were approximately 8 million pairs valued at $13 million, or 1.3 per cent of domestic production in pairs. In 1967, 129 million pairs were imported valued at $217 million, or 21.4 per cent of domestic production in pairs. For the first four months of 1968 footwear imports amounted to 69 million pairs valued at $112.7 million, or 30.5 per cent of domestic production in pairs.

The average dollar value of imported leather and vinyl footwear in the first quarter of 1968 of $1.62 per pair, f.o.b. point of shipment, compares with an average wholesale value of $4.71 of American footwear for that period. This reflects in a dramatic way the impact of imports on the American footwear industry. While imports represent 10.9 per cent of the total value of domestic shoe output in dollars, in pairs (and American consumers wear shoes not dollars on their feet) imports equal 30 per cent of our domestic footwear production. Foreign labor is able to produce the equivalent of almost a third of our domestic production in pairs for one-tenth of the value of our domestic footwear output.

Exports of footwear from the United States, which amounted to 4.6 million pairs valued at $14.4 million in 1955, have declined to 2.2 million pairs valued at $8.2 million in 1967. Our balance of payments on footwear shows a deficit of $209 million for 1967.

SOURCES OF FOOTWEAR IMPORTS

Footwear imports come principally from Japan, Italy, and Spain, in that order. Small quantities come from other countries, as shown in the following table:

U.S. IMPORTS OF LEATHER AND VINYL FOOTWEAR, 1955 AND 1967

Countries [1]	Millions of pairs		F.o.b. foreign value [3] (millions of dollars)	
	1955 [2]	1967	1955 [2]	1967
Japan	2.7	56.8	$1.1	$34.2
Italy	1.1	41.6	3.0	102.7
Spain	(4)	6.7	(5)	23.0
Taiwan		6.7		3.1
France	(4)	2.4	.2	7.0
Czechoslovakia		2.0		4.4
Mexico	.7	2.0	.5	2.7
United Kingdom	.8	1.8	4.3	11.4
Hong Kong	.4	1.4	.2	1.1
Canada	1.0	1.3	1.3	4.2
Communist countries: Yugoslavia, Poland, and Rumania	(4)	1.0	(5)	2.3
Switzerland	.1	.4	1.2	5.5
Other countries	.8	5.2	1.8	15.8
Total [6]	7.8	129.1	13.6	217.6

[1] Countries ranked by 1967 pairage.
[2] Data for 1955 do not include vinyl footwear imports which were minimal.
[3] By excluding cost, insurance, and freight, value of imports is understated by about 10 percent, according to U.S. Tariff Commission.
[4] Less than 50,000 pairs.
[5] Less than $50,000.
[6] Figures do not necessarily add to totals due to rounding.

It will be noted that imports are also increasing from communist nations seeking U.S. dollars. These imports are produced by state-controlled enterprises and sold at prices that have, in several cases, been found by the U.S. Treasury Department to be sold in this country at less than fair value. Imports from communist nations have grown from 8,700 pairs in 1955 to 3,011,700 pairs in 1967. (Under the obsolete Antidumping Act of 1921 the footwear industry has not been able to obtain relief.)

WHY ARE FOOTWEAR IMPORTS CLIMBING RAPIDLY?

Footwear imports are increasing rapidly primarily because they are cheaper—not because they offer unique styles or fashions. They are cheaper because shoemaking is a labor-intensive manufacturing process. Wages of labor abroad producing shoemaking materials as well as shoes are one half to one fourth of the wages paid in the United States. Practically all of the imported footwear is produced at wage and hour costs that would be illegal in the United States.

Wages in American footwear factories averaged $2.01 per hour in 1967; with fringe benefits added, they amounted to $2.43 per hour. This is at least three to four times the cost of labor in Japan and more than twice that of Italy with all the fringe benefits in these countries included.

Footwear manufacturing techniques are essentially the same throughout the world, and essentially the same materials and types of machinery are used. Factories in Italy, Spain, and Japan are becoming better organized, using more modern management methods. Through better scheduling and planning they are eliminating delivery delays that plagued American buyers. With jet air express, they can send in shoes literally overnight.

In spite of the fact that American factories produce at least 25 per cent to 35 per cent more pairs per worker per day than in any other country in the world, this productivity edge is not sufficient to offset these substantial wage differentials. Footwear, as a labor-intensive industry, is among the first that less-developed countries turn to when they begin to industralize. This supplies necessary foot covering for the home market as well as a readily marketable product to export for dollars.

The following example will illustrate why price differences between foreign and domestic footwear have created a tremendous surge of imports. About 150 million pairs of women's shoes sell at $2.98, $3.98, $4.98, and $5.98 a pair through the chains—the great volume shoe distributors of America. They are in intense competition with each other and they, as well as shoe manufacturers, face rising costs. The cost squeeze drives them to search continuously for ways and means to increase markons in order to maintain and improve profit margins. On a $3.98 shoe, for example, as costs inch up the retailer must shorten his markon or move from the $3.98 bracket to a $4.98 bracket. As there is a price elasticity in the demand for footwear, the retailer realizes that a move to the higher bracket may curtail his market or place him at a disadvantage against his competition, or both.

If, however, he can purchase these shoes abroad for $1.00 to $2.00 a pair less, then he can maintain his $3.98 bracket and, at the same time, increase his markon to meet rising costs. This same principle holds true for medium and higher price shoes selling in independent stores and department stores. In certain cases, shoes from Spain and Italy costing $6.00 to $9.00 a pair have been sold over $20.00 retail.

This is the secret of the rapid rise in imports and why they will continue to increase for years to come. If it were style alone and there were no cost advantages to imported footwear, American manufacturers would have no basis for protest. It is well recognized in the trade that if the wholesale cost of imported shoes were the same as the cost of domestic footwear, imports would be limited to a few million pairs of high style footwear sold chiefly in department and independent specialty shoe stores. The volume retailers, chains, mail-order houses, and discount stores selling medium and low-priced footwear would purchase in the domestic market.

Footwear imports were built up first by professional importers who recognized the profit possibilities in wide price differentials existing between American footwear and footwear produced in Italy, Spain, and Japan. They were soon followed by the larger retailers who found it practical and economical to do their own importing. Then the domestic manufacturer found he had to import to compete and to supply customers with a complete line. In some cases, he opened or purchased import operations.

The first footwear market to be lost to foreign competition was that for ski boots which was taken over in the late fifties.

Domestic manufacturers found they could buy these boots cheaper abroad than they could make them in the United States, so they became importers and distributors of ski boots.

The sandal market was taken over in the early sixties. Sandals could be purchased several dollars a pair cheaper abroad than they could be produced in the United States. Consequently, few are now made here, and domestic manufacturers are importing and distributing sandals.

Similar trends are underway in women's casuals and dress shoes and in men's dress and work shoes. With present price differentials, there is no question but that over the next few years imports will carve out a much bigger share of these markets because they are substantially lower in price and offer retailers a large improvement in markon and profit.

As for the contention that footwear imports are style items not available in the United States and the implication that American consumers must buy imports to obtain style, it is no longer true. Jet transportation has changed all that: New York in the morning; London in the afternnon. Fashions developed here today are being ordered in factories abroad tomorrow, and vice versa The broad toe, the boot, the heavy look, and the stockingized shoe were all developed almost simultaneously here and abroad. Herbert Levine, an international style leader in high-price women's footwear and former president of the Designer Shoe Guild, commenting back in 1964, said:

It is my considered opinion, based on my fifteen-year knowledge of the Italian shoe market, that Italy has never introduced *anything* from a creative point of view to the shoe business, based on craft, availability of workers, and cheap wages . . . but their 'creativity' is always derivative. . . .

One point as illustration in relation to the above: I am enclosing a copy of Life Magazine of January 21, 1957, showing the introduction by us of the Cyrano Last. This name was registered June 25, 1956, by us, and the shoes were presented for the first time in April of 1956 and were delivered again for the first time in August of 1956. This was the introduction of the pointed toe which, once again, Italy 'seized upon' quickly and supposedly 'introduced.' I can submit shoes from France, the United States and Italy to prove this point. I can also submit ads which were run during that period to prove that point as well. . . .

WHAT HAS BEEN THE EFFECT OF IMPORTS ON THE DOMESTIC FOOTWEAR INDUSTRY?

The attached charts prepared by Dr. Alfred J. Kana, associate professor of statistics and management science at Seton Hall University, will indicate that footwear imports have robbed the domestic industry of practically all its normal growth since 1955. His statistical projection indicates that by 1970 footwear imports will amount to 291 million pairs and by 1975 to 403 million pairs. Furthermore, with imports climbing rapidly, the trend of domestic production will point downward over the years ahead.

While domestic footwear production is 9 per cent ahead for the first four months of 1968 over the same period of last year, this is cyclical behavior in response to the unusual shoe retail demand brought about by significant changes in female dress and inventory rebuilding in a booming economy. Already there are signs of a letup in demand, and the gain for the year may approximate 4 per cent to 5 per cent.

The growth trend of domestic footwear output is in sharp contrast to the production growth enjoyed by the footwear industry abroad, as the table below will indicate:

SHOE PRODUCTION—LEATHER AND LEATHER TYPES [1]

[Million pairs]

	1957	1966	Percent increase, 1966 over 1957
EEC countries	242.0	463.1	91.4
EFTA countries	151.0	211.1	39.8
United Kingdom	109.0	119.6	9.7
United States	526.7	546.6	3.8

[1] EFTA data from EFTA Footwear Council, London, latest data available; slippers excluded. EEC and U.S. output from U.S. Department of Commerce.

When the 1967 figures become available, there is no doubt whatever that they will show the EEC countries will have doubled their output and that the EFTA countries will have close to a 50 per cent increase over 1957. Even the United Kingdom, with its economic problems, will show a growth rate probably three times that of the United States.

The impact of footwear imports on domestic production in the United States is also apparent from a comparison of the rate of output growth in the last two decades. From 1945 to 1955 footwear production increased 20 per cent; from 1955 to 1967 (twelve years) it increased 3.4 per cent.

JOB OPPORTUNITIES IN THE DOMESTIC FOOTWEAR INDUSTRY WILL CONTINUE TO DECLINE

With no growth in domestic output (as shown in Chart I), there will be fewer job opportunities for workers in the domestic footwear industry than at present. In 1967 the industry employed 200,000 production workers—about 200 workers per plant—to manufacture 603 million pairs of leather and vinyl footwear. In 1955, 223,000 production workers were employed to manufacture 585 million pairs. These job opportunities have been lost because of changes in construction and increased productivity. Had the 129 million pairs imported in 1967 been made in the United States, 43,000 additional production workers would have been employed.

Based on estimated production and imports in 1970, over 90,000 job opportunities will have been lost to imports. When the Vietnam war is over and it becomes important to find job opportunities for veterans as well as for the increased labor force arising from population growth, the footwear industry, which is particularly suited to the employment of unskilled labor, cannot be counted on to help. In fact, it will require fewer workers to turn out the declining production in 1970 and 1975.

ELIMINATION OF INVESTMENT OPPORTUNITIES FOR SMALL BUSINESS ENTREPRENEURS

There will be few, if any, investment opportunities for new small entrepreneurs in the domestic footwear industry in the years ahead. This is particularly important in the light of the economic structure in footwear manufacturing. The industry is composed of approximately 800 companies operating about 1,100 factories in some 600 cities and towns in 42 states. In the majority of these localities footwear manufacturing is the major industrial activity and the chief source of income.

All but a few dozen of the shoe manufacturing companies are family owned and operated. Machinery may be leased as well as purchased. Manufacturing processes are relatively simple. By offering individual entrepeneurs with small capital an opportunity to enage in footwear manufacturing, the industry in the past has made it possible for small entrepreneurs to become independent and develop financial security in the best tradition of our competitive economy. The elimination of these opportunities will be a distinct loss to the small business structure of the country.

IMPORT COMPETITION HAS INTENSIFIED THE PREVAILING SEVERE COMPETITION IN FOOTWEAR MANUFACTURING

The industry strutcure is so atomized that intensive competition prevails in the manufacture of every type of foot wear. The shoe manufacturing industry is one of the most competitive in the Nation. Concentration in shoe manufacturing is minimal. The four largest companies, according to the "Boot and Shoe Recorder," a trade magazine, in 1966 produced 20.6 per cent of the total output of footwear and the first fifty companies, 53.2 per cent. Approximately half the shoe industry volume remains in the hands of some 700 small entrepreneurs or businessmen.

The low average factory value of all shoes produced in the United States provides another reflection of the intense competition prevailing in the industry as well as the tremendous value provided consumers .According to U.S. Department of Commerce figures, the average factory value for all the domestic leather and leather-type footwear produced in 1967 was only $4.64 per pair. This results in an amazing picture at retail where over 50 per cent of the women's shoes sell below $6.00 a pair; 64.5 per cent of all the children's shoes, at or below $6.00 a pair; and 40 per cent of all the men's shoes, below $10.00 a pair.

Exit and entry in the shoe manufacturing industry are relatively easy. Buildings and machinery may be leased and production undertaken with a relatively small amount of capital as compared with the investment required to enter manufactruing industry generally. This severe competition produces a very fluid situation in the industry structure. Over the last decade well over five hundred companies ceased shoe manufacturing, while a somewhat lesser number began manufacturing operations.

Profits on sales for a representative sample of well over a hundred of these medium and small manufacturing companies over the last twelve years have ranged from 2 per cent to 3 per cent on sales, or about half that for manufacturing industry generally. From 25 to 30 per cent of the footwear manufacturers, according to the Internal Revenue Service, report no profits. Profit ratios in 1968, because of the excellent retail business in the latter half of 1967 and early 1968, may even show a small improvement. What they will not show is that total profits for stockholders and for new investment in plant and equipment would have been greater if the bulk of imported footwear had been produced in the United States.

THERE ARE FEW OPPORTUNITIES FOR INCREASING EXPORTS OF FOOTWEAR

Because American footwear is higher priced than foreign footwear only a few U.S. specialties find a market abroad. Even if prices were competitive, American manufacturers could not export to any important extent. Most shoe-producing countries of the world have higher tariffs or protect their domestic footwear industries through border taxes, exchange restrictions, or licensing. At the same time, some of these countries encourage footwear exports to the United States through export subsidies, credits on domestic taxes paid on footwear exports, and concessions on freight.

Assuming a continuation of the trend of the first four months of 1968, the value of imports will amount to $300 million this year and exports approximately $8 million, for a deficit of $292 million for 1968. The cumulative deficit of imports over exports since 1960 amounts to $812.6 million. At the end of 1969, it will amount to over $1 billion.

U.S. TARIFFS ON FOOTWEAR ARE AMONG THE LOWEST IN THE WORLD

U.S. tariffs on footwear average about 12 per cent on all shoes imported prior to the Kennedy Round reductions. When the Kennedy Round reductions are completed in 1972, they will be between 8 per cent and 8.5 per cent. To add "insult to injury," there is a remission of taxes in most Western European countries of up to 7 per cent on the value of exported products which, in effect, amounts to a direct subsidy.

FOOTWEAR MANUFACTURERS ARE BEING FORCED TO BECOME IMPORTERS

Footwear manufacturers have three avenues in which to meet foreign competition. They may export footwear. If this avenue is closed, they may invest abroad in plants and import the product as well as sell it abroad. Or, if there are economic reasons against investment abroad, they may export lasts, dies, and patterns and have the product tailored to their needs at lower costs than if produced in the United States. This latter course is the path chosen by an increasing number of footwear manufacturers who are finding it necessary to import footwear. Of the 129 million pairs imported in 1967, possibly half of these were imported by American manufacturers.

Hardly a day passes that some manufacturer is not told by his retail customer that if he cannot supply a line of imported footwear to retail at a certain price the customer will go elsewhere to get it. The following letters from two medium-sized footwear manufacturers illustrate what is taking place:

Letter #1

As you know, this season we contracted with a factory in Italy, one in England and one in Spain to make shoes to be sold by us. . . .

In the case of Italy we furnished the styling information and the lasts; these shoes are made to our specifications. The main thing we seemed to be buying was the labor job. In both England and Spain we gave a great deal of assistance in the styling and manufacturing of the shoes.

We had to make a decision last fall whether we should build another factory here or go into the import business. With all the competition from imports in this labor-oriented product we decided we would be much better off to augment our business by developing these relationships in Italy, England and Spain. This means of course that we have restricted our expansion and several hundred jobs which we might have created by building a factory in the United States have been eliminated.

We are barely into this program so it is difficult for me to project how far it will go. However, I can assure you it is going very, very well. We feel we were forced into it, and I am sure if we had proper emphasis on domestic versus import relations we would have much preferred to have built a factory here in the United States.

Letter #2

Our largest single customer is . . . . During several recent years this account has represented over 15% of our total volume; hence it is not difficult to understand its importance to us. In January of 1968, as is customary at that time of the year, we submitted and presented our style suggestions for the fall season. (They) ordered a number of samples from this selection and we again contacted the account in March in an effort to nail down certain adoptions for the approaching season. In April we were advised by this account that almost all adoptions of new styles would be made from imports and that *no* adoptions of new styles would be made from samples we had submitted. . . .

Our five-year plan calls for an expansion of our physical production facilities but that unless there is a drastic change in the attitude of the administration in Washington or unless there is proper Orderly Marketing Legislation enacted in behalf of our industry, *there isn't a remote chance that our expansion will take place on domestic soil!*

These letters are typical of what is taking place in the footwear industry. As imports continue to rise, more and more domestic footwear manufacturers will follow the same practices. More and more jobs will be exported.

THE IMPORTED FOOTWEAR COULD HAVE BEEN MADE HERE

Evidence may be put into the record from trade papers that the American footwear industry is operating at capacity as far as labor is concerned and that it cannot supply the footwear needed and that retailers, therefore, must go abroad. The labor situation in footwear today is extremely tight. But it is also true that if the business that has been going to imports over the past ten years had been given to domestic manufacturers new factories would have been opened in the United States, labor would have been employed, and the industry today would be able to supply the current demand and more. It is unreasonable for those who have given the business to foreign manufacturers in the past to charge that the industry cannot supply the demand today. It is like asking a fighter who has been out of training for seven or eight years to get in the ring and go fifteen rounds.

TRADE ADJUSTMENT ASSISTANCE HAS BEEN A BLIND ALLEY

The industry has been asked from time to time by Trade Representative Roth's office why it did not appeal for help under the adjustment assistance provisions of the Trade Expansion Act. It should be unnecessary at this time, when the Administration, through various officials, has admitted for public record that the statute as written is useless and that it is impossible for industry or labor to meet the test for relief, to comment on this point. It was partly because of the ineffectiveness of the adjustment assistance provisions that the AFL–CIO at its convention in Miami Beach last December reversed its historic position for free trade and came out for "international agreements to regulate world trade . . . in industries that are sensitive to disruption by rapidly rising imports and unfair competition."

No matter how written, it is doubtful if adjustment assistance will be of value to any company unless that company is approaching or is already in bankruptcy.

NEW LEGISLATION NEEDED ON ANTIDUMPING

The domestic footwear industry is particularly vulnerable to the increasing flow of imports from behind the iron curtain. For example, since 1959 Czechoslovakia has stepped up its exports to the United States: from 192,600 pairs in 1959 to almost 2 million pairs in 1967, or an increase of 938 per cent. Other communist countries, such as Poland and Rumania, are beginning to export footwear to the United States.

With shipments of footwear increasing from iron curtain countries and likely to increase in the future, the industry has become increasingly concerned over dumping or sales of footwear at prices below home-market price. State-controlled enterprises that manufacture footwear in these countries may establish prices for exported footwear which have no relation to cost but simply reflect the country's demand for dollars at that moment.

Over the past few years complaints have been filed by the Association on imports of footwear from Czechoslovakia, Poland, and Rumania. In all three cases, Customs found the shoes were being sold at less than fair value, the home-market price as described in the Antidumping Act of 1921. In the Czechoslovakian case the Tariff Commission found no injury to domestic industry. In the Polish and Rumanian cases the importers assured Customs that there would be no further sales at less than fair value, and the matter was not referred to the Tariff Commission. All of these actions were unsatisfactory.

The Antidumping Act of 1921, which Congress has amended several times, needs further amendment. This Act is obsolete and outmoded in a world which engages in trade with communist countries and collectivized industries. The absurdity of the present law is reflected in the fact that the Tariff Commission has had more than twenty decisions in which they have failed to find injury to domestic industry in antidumping cases.

The new international antidumping code negotiated in Geneva during the Kennedy Round will go into effect July 1, 1968, in spite of many protests that it is in conflict with the provisions of the U.S. Antidumping Act, Treasury regulations, and administrative interpretations of both the Treasury and the U.S. Tariff Commission. Under this rule, complaints to the Treasury about dumping must show evidence of injury as well as unfair prices. In the past, the Treasury would suspend appraisement of imports until it found out whether dumping existed. This was a worthwhile warning signal. Now, the Treasury will go ahead and appraise imports while investigating dumping practices. This removes one of the important elements of the dumping law and makes it even more useless than at present. We believe that legislative amendment of the Antidumping Act of 1921 is urgently needed as a necessary counter measure against the unfair trade practice of dumping. We believe congressional guidelines are necessary to clarify these basic concepts, eliminate loopholes in administration, and provide greater speed and certainty in handling dumping cases.

CONCLUSION

The footwear industry is in agreement with government aims and objectives that look toward increasing world trade. We believe it is imperative, however, in the light of vast changes in world conditions since our trade liberalization policy began thirty-five years ago, that we make adjustments in this policy where necessary to preserve and permit at least modest growth in home industries that provide employment in small cities and towns throughout America. Significant developments in international trade and finance over the past decade, and particularly at the present time, point to the dangers of failure to do so. If we exclude exports under Public Law 480 and government aid, our commercial trade balance has been barely in the black and this year is expected to show a deficit of anywhere from 1 to 2 billion dollars. Inflation and the rising costs of our welfare state have meant, particularly for labor-intensive industries, that we are losing our competitive edge and are no longer able to compete with lower cost economies abroad.

Moreover, in spite of years of negotiation under GATT, there has been a continuing lack of reciprocity in our trade negotiations. This may have been all very well in the thirties and forties but is totally inappropriate in the world of today. The industrialized countries of Europe and Japan do not need our help. They maintain an array of barriers to trade. Threats by Administration spokesmen of retaliation abroad for actions which we might take to improve our trade situation are greeted with wonderment by knowledgeable businessmen abroad who know the score. They conclude we are novices on trade matters. Finally, the growing signs of aims for self-sufficiency in the EEC, the building of new footwear plants abroad, and the movement by less-developed countries into industrialization and the manufacture of footwear threaten even stiffer competition for American footwear manufacturers in the future.

The widespread propaganda against such a modest change in our trade policy completely exaggerates the aim and the intent of orderly marketing of imports. No one is suggesting imports be stopped or even cut back. The question is: What shall be done about the future growth of imports of footwear? Shall footwear imports grow on a regularized basis shared with domestic producers? Or will foreign producers be permitted to take over American markets at will, displace American labor, and make jobs for labor abroad? Other countries when they have been faced with these problems have not hesitated to move in the direction of their best interests. They will have no less respect for us when we follow the practices that they have followed in their international policy.

STUDY PREPARED BY DR. ALFRED J. KANA, PROFESSOR OF STATISTICS AND MANAGEMENT SCIENCE, SETON HALL UNIVERSITY

Charts I and II attached are the result of statistical analyses of domestic shoe production from 1955 to 1968 and of the growth of imports for the same period, with projection to 1975.

Chart I shows actual domestic production on an annual basis against the number of pairs of imported shoes. In comparing both series, it is evident that, while domestic footwear production over the last decade has had very little growth, imported shoes have risen significantly since 1955. Despite increases in demand for shoes from our ever-increasing population, practically all of the potential growth in the domestic footwear industry has gone to imports. While imported shoes in 1955 were 1.3 percent of domestic production, 1967 import penetration reached 21.4 percent, or slightly more than one pair of imports for every five domestic pairs.

Chart II provides several additional features: long-term secular trend for U.S. production between 1955 and 1968; trend projection for the imports series to 1975; and a visual comparison that reveals the extent of imports penetration.

Based on an analysis of economic conditions here and abroad, the assumption has been made that there is no reason to expect any basic change in the factors which encourage footwear imports. On this assumption, a statistical projection of footwear imports has been made through 1975. This suggests the expected rise in imports may well bring about some reduction in domestic production of footwear between now and 1975.

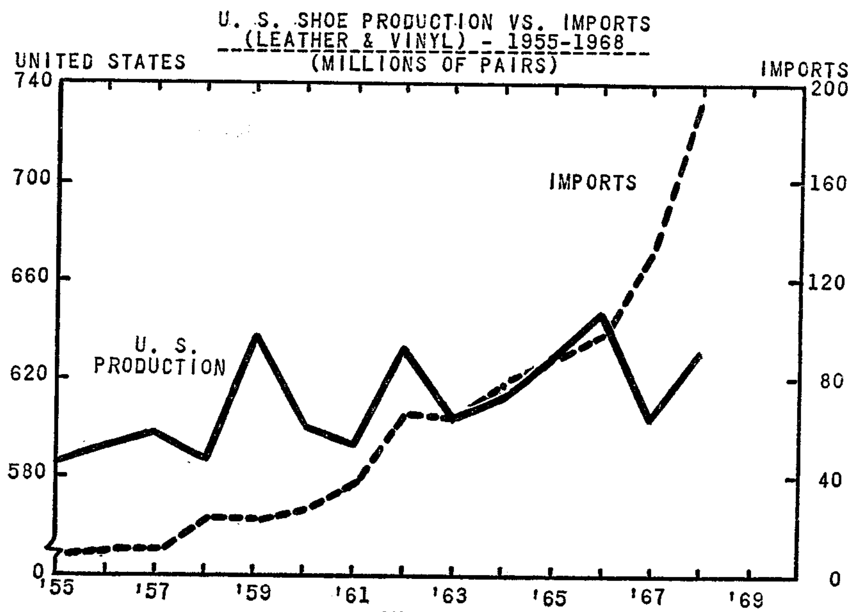
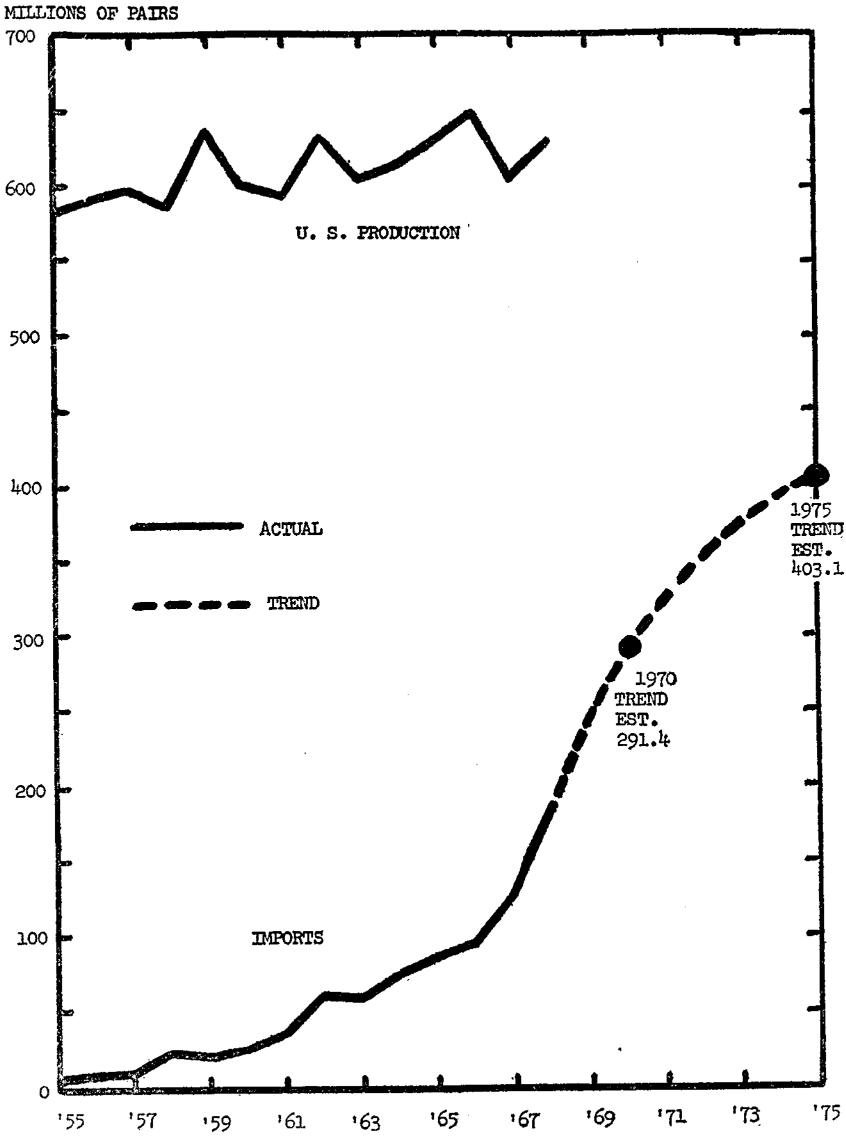


CHART I

CHART II

U. S. SHOE PRODUCTION VS. IMPORTS
(LEATHER & VINYL) - 1955-1968
WITH PROJECTIONS TO 1975



In examining the imports series, cyclical variations have been minor when compared with the domestic series. Consequently, the trend of imports since 1955 is very evident, showing an increasing rate of expansion. The statistical projection of trend starting from 1968 reveals an expected 291 million pairs in 1970 and some 403 million pairs in 1975. This is based on the assumption that there will be some decline in the rate of increase of imports from year to year as they begin to saturate various footwear lines.

Mr. BURKE. Are there any other witnesses who wish to testify?

Mr. GOLDSTEIN. Do you want to wait for the questions?

STATEMENT OF A. MEYER, JR.

Mr. MEYER. Mr. Chairman, members of the committee, I am privileged to appear before your committee as president of the Tanners' Council of America, the national trade association of the leather industry. I am a tanner by vocation, and I head Gutmann & Co. of Chicago, who have been in business for 78 years. We employe 350 people in the manufacture of cattlehide upper leather for shoes. The position I express for the tanning industry is confirmed by my own experience.

The point of view we address to you can be stated very plainly. We believe the time has come for fresh thinking and action by the United States of foreign trade policy. We feel strongly that prompt steps must be taken to deal with the facts of world trade as it is. All too many of the dogmas of the past generation are no longer realistic or meaningful.

Please remember the credentials of the tanning industry. We have rarely asked for Government consideration or help. Tanners are a breed of enterprisers who believe in paddling their own canoe. They believe that the free play of markets and competition can usually solve business or economic problems. We are forced now to ask for some reasonable form of import control for the very simple reason that some 90 percent of the world does not share our business thinking or philosophy. Perhaps the milennium foreseen by Ambassador Roth may come some day, but we think it important for us to stay alive in the meantime.

Our industry converts hides and skins into leather which we sell to manufacturers of shoes, handbags, garments, gloves, and hundreds of other products. The sharp growth in the imports of foreign merchandise concerns us in two ways. First, finished goods coming into the United States deprive us of a market for leather. The U.S. shoe manufacturer who produces less, due to imports of shoes, will not buy leather from us. Second, we are concerned by leather imports which invade our remaining domestic market.

During the past 2 years we have been alarmed by the terrific growth in the volume of imported shoes because the shoe business is our biggest outlet for leather. You have heard or will hear from representatives of the shoe industry on the rate of import growth and the percentage of our market which has been captured by foreign shoes. Our past experience with other leather products rings warning bells. Believe it or not, not too many years ago all the baseball gloves used in our national pastime were manufactured in the United States from leather tanned in the United States. I estimate that more than 75 percent of the baseball gloves we now use are imported, principally from Japan. Exactly the same swing took place in dress gloves. For practical purposes we have seen a large segment of our sporting goods and our glove business sacrificed. We cannot survive as an industry if the same thing happens to shoes.

I want to make it absolutely clear that our loss of markets in the past is in no sense due to any competitive shortcoming on our part. I believe that we in the United States make the best leather in the world. I don't believe it. I know it.

Our prices are more than competitive as our notoriously small profit margins will attest. For a generation we have been the consistent victims of lack of reciprocity by other countries and that has played a major part in our loss of market to imports. We cannot afford to see the same thing happen in shoes, our one remaining large market, and I do not believe that the country can. Our reasoning is as follows:

Tanning is described by the economists as a high labor intensity industry. We use the best machines we can find and develop. We have the finest skills in production management and engineering, but leather has to be made by people. It cannot be programed as an automatic push-button operation. It takes hands and eyes, backs and human sweat to make leather. Tanning provides employment opportunity for the unskilled and the semiskilled labor which has never learned how to operate a computer. These, gentlemen, are exactly the kind of jobs and job opportunities which are needed in the United States today.

In my company in Chicago, 70 percent of our employees are from minority groups, principally Negroes. I am sure the remaining percent when they started to work in the plant considered themselves minority groups. They earn an average of $3 an hour. Average weekly earnings in my plant last year, 1967, were about $150.

My company is not alone in the composition of our employment. In Chicago, Milwaukee, Newark, and other leather production centers a very high proportion of tanning jobs is made up of the very groups for whom job opportunity at high wage levels is essential. Our employees have a very great stake in our ability to survive.

Please bear in mind that wages paid by U.S. tanners are anywhere from three to 15 times larger than tanning wage rates abroad. Therefore a reduction of tanning jobs in the United States as a result of imports is bound to aggravate the acute social and economic problems which must be met in our cities and communities.

Our industry has seen no growth for years. Population is growing, consumption is increasing, but the tanning industry as a whole has not held its own. Imports are the major cause. Who would dream of investment in expansion when shoe imports jump 40 or 50 percent a year and capture better than 30 percent of our market? What industry merits investment confidence if it is slated to be swamped by foreign production?

We have the raw material, we have the people needing the jobs, but we have allowed other countries to take over our growth and increase their employment at a price to us which we cannot afford to underestimate. If we had any reasonable assurance that the import trend will be stabilized, tanning plants would be started in the very areas where jobs are needed. I speak very personally. My company would build additional facilities.

There is another consideration that must concern you. This is about the balance of payments. We are now in the United States exporting a third of our raw cattlehides, about 12 million a year, at an average of roughly $7 per hide. Every one of these hides comes back to us converted and fabricated into shoes, handbags, baseball gloves, or camera cases, and the value of the returned hide which we ship out for $7 can come back worth $200 to $700 worth of merchandise. If we could expand and tan more of our own raw material, that would make a big difference to the U.S. balance of payments.

I referred at the beginning of this statement to lack of reciprocity, to the absence of the equality of competition as a prime element in our present situation. We tanners are familiar with the polite response to our repeated pleas for trade reciprocity. Many years ago we were told that the dollar shortage abroad temporarily justified unfair or discriminatory practices by other countries. Then when the dollar shortage disappeared we were told that foreign border taxes or subsidies through remission of internal taxes were really not a trade issue. When such facts were finally acknowledged as an issue by our own Government, we are told that we must never do anything to incur retaliation. We fail to appreciate the point because retaliation is all we have had for some 20 years.

Gentlemen, I will tell you as a trader that this retaliation thing is a myth. People buy things from us because they need them or they want them. It is just a matter of time before a country that can make a transistor radio can be making a computer or a Volkswagen can get a snowplow in front of it and become an earthmover.

I am not going to dwell on the details of a one-way street in international trade policy. The executive head of the council has some pertinent information and views on that subject he would like to present to your committee. I do want to express to you the conviction and the conclusion of our industry. We believe that the issues confronting the leather and leather-consuming industries of the United States in foreign trade are unprecedented. They cannot be dealt with in the conventional terms of the past. Terms such as protection and free trade reflect irrelevant and antiquated dogmas.

I recall the phrase from a real good musical show, "The King and I," when the king was debating making alliances with another country, and his phrase was, "Might they not protect me out of house and home?"

The underlying fact is that tariff tinkering, such as the Kennedy round, cannot and will not solve the fundamental issue arising from the vast disparity between a mandated wage structure in the United States and far lower wage costs abroad. It cannot cope with the violations of mutuality which are all too evident today. We must deal positively and forthrightly with realities and if that means adopting new means to keep our economy viable, then so be it.

We believe that it has become necessary for the United States to act on behalf of domestic industry and labor when imports threaten the wholesale destruction of job opportunity. We must forge an economic rule of reason in foreign trade policy and that means imposing reasonable restraint and order on imports when necessary. Our guiding policy should be to allow foreign producers to share in the growth of the American market but not to preempt and destroy it by such a tidal wave of shipments as is now taking place.

The tanning industry endorses, therefore, the principle of import quotas as the only logical and feasible means of assuring that the traffic on the trade bridge between the United States and the rest of the world be held in order rather than allowed to become chaos. Such reasonable control will benefit other countries as much as ourselves because our economic health and stability is indispensable to progress in the rest of the world.

Thank you.

Mr. BURKE. Mr. Glass?

STATEMENT OF IRVING R. GLASS

Mr. GLASS. Thank you.

If I may take a few minutes of yours and the committee's time, I have submitted a detailed statement. To that statement are appended a very substantial record of what has happened to the tanning industry over the past 12 years; a record of imports as compiled by the Department of Commerce.

I want to presume upon your time for a few minutes to stress certain aspects of our experience and the views which that experience has generated and the conclusions to which we have come.

We do not believe that our experience is widely paralleled anywhere else in the industrial structure of the United States. Bear in mind, gentlemen, that the tanning industry in terms of the number of products in which it trades with the rest of the world and the number of nations with which it deals probably has as diversified and broad an experience as any industry or product area in the country.

Consequently, we assume that our experience as an industry may be of some benefit and guidance in this consideration of national trade policy.

You will notice from the figures appended to my statement that in every instance every major product we produce or with which we compete has shown a record of startling and enormous import growth in the past two decades. I need not review the details of the figures. They are self-evident.

I am sure they are familiar to you by now. Let me point out what Mr. Meyer referred to. Last year in 1967 our imports of baseball gloves, to use the conventional statistical usage, were 570-odd percent of our domestic production, and all that has happened in some 10 or 12 years.

There is no point in dwelling on the irony of our importing the accoutrements for our national pastime. The ratio of imports to domestic production of baseball gloves is 507.05 percent.

A similar trend is started, has started, has taken hold to a very considerable extent in virtually every other type of fabricated leather product, and within the past 6 years it has become increasingly evident that the same trend is taking place in finished leather invading the U.S. market. If that trend reaches its climax in the continued growth of shoe imports, we are out of business, and so are our friends the shoe manufacturers or the manufacturers of ladies' handbags, industrial work gloves, baseball gloves, and any other product made of leather.

We attribute our experience over the past two decades, gentlemen, to the simple fact that the context of international trade for a generation has been unfair, has been inequitable; that the basic national foreign trade policy we have followed for this generation is a failure, is bankrupt, and it is time it ought to be liquidated and decently interred.

We have reached that conclusion, gentlemen, because for more than 20-odd years we have assumed that the hinge pin of our national foreign trade policy was the concept of reciprocity, that there would be a progressive liberalization of trade so that men, materials, and products would move freely. That has not happened.

For years we have pleaded with the executive agencies of Government; we have petitioned Congress for reciprocity. We have asked for decent, fair terms of competition. That has not been forthcoming.

Again and again we have been given the bland assurance and the expressed hope by administrative agencies that remonstrance in diplomatic channels would sooner or later melt away the nontariff restrictions, impediments, obstacles, and everything else which frustrates the fundamental concept of our entire trade program. That has not happened.

In our opinion and based upon our experience in industry we have less reciprocity now than we had 20 years ago. I could cite dozens of instances of the kind to which Congressman Dent referred this morning in his compilation of nontariff restrictions and impediments to trade.

A couple of months ago I was in Japan. We sought there to see if we couldn't open the door somehow or other and get American leather admitted to Japan. For 15 years the Japanese have maintained a virtual embargo against the import of leather from the United States. Our markets are free and open to Japan. They come to the United States and buy our raw cattle hides, transport them 8,000 or 9,000 miles to Japan, and then return to us gloves, industrial work gloves, radio and transistor cases, and now shoes.

In Japan I found that all of the efforts which have been made by our diplomatic representatives for years have come to naught. Quite privately a number of Japanese manufacturers came to me and urged me to plead with our Government officials to do something about the Japanese restrictions against the import of leather from the United States. Why?

Because the Japanese manufacturers realized that American leather was better value, could be purchased more cheaply, gave them the diversity, the range, the quality, the flexibility, the style which they needed to create a genuinely healthy leather products manufacturing industry in Japan, and they didn't dare to do so openly.

They were fearful that they would incur the official wrath of Japanese suppliers or Government officials. I have in our files dozens of letters from various agencies of the U.S. Government covering a period of some 14 years in which we have been assured that there is still hope for the ultimate elimination of the Japanese restrictions against the United States and the achievement of some kind of equity or normalcy or two-way street in trade.

Based upon our experience in the past 14 years, we are exceedingly doubtful.

There certainly is no reciprocity, gentlemen, in Western Europe today where border taxes and the remission of internal turnover taxes to European manufacturers provide an indirect subsidy.

Earlier this year the President of the United States publicly singled out those nontariff elements of trade restriction and suggested that possibly the United States might have to take similar measures. It wasn't too long before there appeared to be the drift of opinion officially that any such action by the United States merely to emulate what others have been doing would provoke and invite retaliation.

I could go on, gentlemen, for hours giving you the specific consequences of various discriminatory tactics, nontariff restrictions employed by various countries. They range from border taxes and the remission of internal turnover taxes to export embargoes on raw material to denial of access to raw material markets.

France to this day, for 20-odd years, maintains a quota on the export of French raw calfskins and horsehides. In West Germany domestic tanners are given first crack at any West German raw material before it may be offered abroad.

Mexico maintains an export duty of 45 percent on raw hides and skins so that Mexican tanners can thereby buy their raw material at 45 percent below the world market and have that enormous advantage in shipping huaraches or handsewn gloves to the United States.

Argentina maintains a differential tax on the export of hides from Argentina, and as a result, as you will see from our appended figures, we are beginning to get 40 and 50 million feet a year of cattlehide leather. We, the largest cattlehide producers in the world, are importing cattlehide leather from Argentina.

There is only one exception to that progression of growth in imports, and that is the phenomenal growth we have achieved in the export of raw material. We are now exporting 35 percent of our raw cattlehides.

Continuation of that trend, gentlemen, has only one end result. To put it as bluntly as possible, it puts us in the position of becoming a banana republic. We become the drawers of water and the hewers of wood for developed nations abroad to buy our raw material and return finished products to us.

Against the background of that experience, we no longer can minimize the fact that in our mind the foreign trade policy we have followed for years is a colossal failure and that fresh positive course must be taken, and we do that with all the misgivings that an industry made up of free enterprisers from way back must have when it reaches that conclusion.

There is one other point of view to which I do not believe sufficient attention has been given in the national forum of trade policy discussion.

The world today consists of many economies other than the classic, ideal laissez-faire economy, on which our idealism in foreign trade policy has been grounded.

Those economies range from the totalitarian economies of Eastern Europe to the welfare states or semicontrolled economies in other parts of the world.

Bear in mind, gentlemen, that in a free enterprise economy the arbitrament of a marketplace determines what Mr. Goldstein or Mr. Meyer can do in making and selling leather. They have to be concerned with costs and prices in their balance sheets. Not so with a controlled economy where export policy or trade policy is the handmaiden of economic or political purpose.

We have had some very interesting experiences and consequences with that application of national purpose and political instrument.

The Czechoslovakian shoes Mr. Goldstein cited, those are not an instance of free competition of value finding its level. Those are, primarily, an instance of a controlled economic plan seeking a deliberate and definite purpose.

Where do you draw the line between the outright planned totalitarian economy and the semicontrolled economy where, in one way or another, such as in Italy or Spain or Western Germany there is a planned, preconceived purposeful effort made to utilize trade as an instrument of national policy?

We submit, gentlemen, that you cannot draw the line, and that for that reason the basic policy we have followed in the past no longer applies to the world as it is.

We must modify our thinking. We must modify our tactics. We have to recognize the realities and deal with them in terms of their immediate impact. There seems to be only one feasible, reasonable, logical way to do that, the imposition of controls, reasonable controls on quotas so that we can protect our friends abroad as well as ourselves.

(Mr. Glass' prepared statement follows:)

STATEMENT OF IRVING R. GLASS, EXECUTIVE VICE PRESIDENT, TANNERS' COUNCIL OF AMERICA, INC.

Mr. Chairman, my name is Irving Glass. I am the Executive Vice President of the Tanners' Council. The facts and figures of foreign trade in the leather and leather products area are appended to the statements we are submitting. There is no merit in dwelling on these statistics because they instance in varying degree a uniform trend: Growth of imports out of all proportion to the growth of our domestic markets. It is our belief that the lopsided balance of trade in the leather products area is a mirror and a portent of a much wider trend affecting all manufacturing industry.

We call your attention to the fact that the United States now exports one-third of the hides we produce, our basic raw material, and that the equivalent of all these hides come back to us as finished goods. In other words, through no fault or shortcoming of our industry, we are well on the way to become an underdeveloped agricultural nation. We are becoming the figurative hewers of wood and drawers of water for manufacturing industry abroad.

The President of the Tanners' Council has indicated to you the economic reasons, the job reasons, which have led our industry to support the principle of import quotas. I would like to point out to you several other hard facts supporting the same conclusion. These are facts which have not been recognized in national discussion of trade policy but which we as tanners have learned from bitter experience.

First, we believe that the underlying concept of our foreign trade policy for more than a generation has failed. The cumulative result of non-reciprocity has contributed in very large measure to the dangerous present import trend. For many years we have asked for nothing more than true reciprocity which meant for the tanning industry the ability to compete on equal terms with foreign industry. And, for many years we have been blandly assured that these evasions were minor and would fade away in the polite remonstrance of our diplomatic officials. There have been many occasions when we have wondered why foreigners were more deserving clients to the framers and administrators of our foreign trade policy than our own tax-paying industry.

The evils of non-tariff restrictions, barriers, impediments and discrimination have not faded. They have grown. Import taxes, subsidies, export taxes to penalize raw material as against leather, and outright embargoes have actually multiplied. Moreover, on the score of tariffs alone, scandalous rates are imposed by some countries. Permit me to cite a few examples of trade inequity.

The system of border taxes and remission of internal turnover taxes in Western Europe has long been a thorn in the side of fair trade or competition. Early this year, for the first time, our government officially acknowledged the inequity and the suggestion was raised that similar measures might be taken by the U.S. It is certainly ironic that very lately we have been told that such measures, trivial though they would be, must be shunned because retaliation would follow. Is the implication that sinning by others must be condoned from fear of inciting even greater departure from virtue? In the meantime the net result is that we have lost a large share of our calf leather and kid leather domestic markets to foreign leather.

Another example—U.S. leather is banned from Japan for all practical purposes. Our markets are free and open to Japan. We are flooded with their baseball gloves, work gloves, but we are not allowed to meet the hunger of Japanese manufacturers and consumers for U.S. leather. Our importunities on this situation have been submitted again and again to our government. Nothing has happened.

The paradox is that Japanese manufacturers and consumers want our leather because it is superior in quality, more attractive and diversified and competitive in price. Their economy would benefit by buying leather in the U.S. instead of transporting our hides for 8,000 miles to protect a fledgling tanning industry which could not survive in fair competition, labor rates notwithstanding.

Another example—Argentina, like the U.S., has many cattle and cattlehides. In order to join the interests of native agriculture, industry and labor, Argentina employs these interesting devices: First, an import duty of 125% ad volorem against U.S. leather. Second, an export tax on hides subsidizes Argentine tanners by keeping the price of their raw material below the world market. Is it suprising that in 1967 Argentina shipped to the U.S. 19.4 million feet of side leather, enough volume to keep a major U.S. tanner busy all year long?

Another instance in lack of reciprocity is presented by continued restriction or denial of access to raw material in various countries. France maintains quotas on the export of raw calfskins and horsehides. French tanners, however are unhindered from buying raw material in the U.S. West Germany requires that raw material offerings be first made to domestic tanners and such goods may be offered abroad only when non-saleable at home. India has, as a matter of national policy, progressively reduced hide and skin export quotas in order to promote tanning by Indians. Mexico maintains a prohibitive export tax on hides and skins.

In short, gentlemen, the experience of the tanning industry is a clear record that the concept of reciprocity has failed.

We also submit to your Committee and to the Congress another vital respect in which our foreign trade policy of the past is completely inadequate to meet the realities of present-day world trade. The crucial hinge of our policy has been the notion of a free market for interplay of competitive values. That notion may have been accurate a century ago. It does not and cannot meet the facts of international trade today.

How can we cope with the reality that trade practice of countries with controlled or totalitarian economies is an instrument of political policy? Not many of the countries with whom we trade throughout the world can be excluded from that category. It ranges from the outright and avowed economic planning of Eastern Europe to policies such as Argentina or countries in Western Europe employ to foster specific industries and attain specific objectives.

I want to stress the significance of this issue because it poses very serious questions that have been publicly ignored. In the United States tanners or shoe manufacturers, as competitive enterprisers, must always operate under the arbitrament of the market and the balance sheet. That is not the case in a controlled economy where costs and prices are secondary to government political or economic policy. What recourse do we have, for example, under the conceptions we have followed in the past, if a totalitarian economy decides to take over a U.S. market through massive exports? And it does not have to be only Communist countries which can harbor such objectives. Where does one draw the line between imports of shoes from Czechoslovakia, from Spain, or from Italy all fostered in various ways by deliberate government policy?

Does this possibility seem far-fetched? On the contrary. The record of what has been done by various nations in the leather and leather products area is a dramatic illustration of an ominous potential. Argentina, Italy, Spain, Czechoslovakia, Mexico, France, West Germany, all furnish case histories of one kind or another, histories of trading policy in the service of national economic or political objective.

The crucial point is that tariff provisions are meaningless in dealing with the consequences of deliberate policy by other nations, policy framed and carried out for defined purposes.

We estimate, from the data of the Department of Commerce, that in 1967 imports of shoes, other leather products and leather represented the equivalent of more than two months' operations by the U.S. tanning industry. That ratio is worse in 1968 when the first four months have disclosed another startling jump in shoe imports. Is this trend irreversible? Must our domestic tanning industry and leather goods industries be extinguished by the tidal wave from abroad? The answer is yes under the present national policy, and that result will inevitably shut the door of job opportunity on the very groups who need it most.

A change of policy is long past due. Outworn dogmas must be discarded. We must accept the logic of the facts and that logic points to an import quota system as the only effective and feasible means of coping with the impact of imports.

Minor tariff changes or emulating other countries in respect of border taxes and subsidies are in no sense a solution. Adjustment assistance provisions are palliatives which will only add to relief rolls and taxpayers' burdens. What the country needs and what our industry needs is an import quota system to give a measure of stability to the process of change and development.

Import quotas will aid us in preserving essential job opportunity. They will not foreclose competition. On the contrary, quotas will aid all of our trading partners by assuring them of participation in U.S. growth instead of permitting them to destroy it. Import quotas, whenever found necessary by plainly defined criteria, are the only equitable means of protecting other free economies against drastic and injurious trade dislocation. In short, the stabilization of foreign trade, the assurance of viability for domestic industry, job opportunity for the future American labor force and plain equity and defense against totalitarian trading systems all urgently require the new, the realistic approach of reasonable quotas. The Tanners' Council urges speedy action in adoption of legislation and administrative methods because delay will mean irreparable economic damage.

I. U.S. LEATHER IMPORTS BY PRINCIPAL CATEGORIES

(a) Calf Leather

	Imports (thousand square feet)	Percent imports of domestic production
1955	11,065	9.7
1960	26,302	37.8
1965	28,512	41.4
1967	35,045	79.5
1968 (1st 4 months)	14,812	94.8

(b) Cattle Side Leather

	Imports (thousand square feet)	Percent imports of domestic production
1955	3,734	.6
1960	10,353	1.8
1965	53,999	8.5
1967	52,007	8.3
1968 (1st 4 months)	19,078	8.6

(c) Goat and Kid Leather

	Imports (thousand square feet)	Percent imports of domestic production
1955	7,133	6.1
1960	12,114	14.3
1965	16,096	24.6
1967	17,082	44.9
1968 (1st 4 months)	5,188	50.1

Source: U. S. Department of Commerce and Tanners' Council.

II. TOTAL U. S. FOREIGN TRADE—LEATHER

[Value in thousands of dollars]

	Imports	Exports
1955	22,482	22,132
1960	41,447	31,800
1965	66,998	39,474
1967	68,045	42,274
1968 (1st 4 months)	26,645	16,785

Source: U. S. Department of Commerce.

III. U.S. FOREIGN TRADE—ALL LEATHER MANUFACTURES

[Value in thousands of dollars]

	Imports	Exports
1955	35,388	24,000
1960	100,196	21,722
1965	201,200	22,110
1967	303,980	22,131
1968 (1st 4 months)	(1)	(1)

[1] Not available.

Source: U.S. Department of Commerce.

IV. U.S. IMPORTS—LEATHER PRODUCTS

(a) Shoes Other Than Rubber

	Imports (thousand pairs)	Percent imports of domestic production
1955	7,739	1.3
1960	26,617	4.4
1965	87,632	13.9
1967	129,134	21.4
1968 (1st 4 months)	69,119	30.6

(b) Leather Merchandise Excluding Shoes

	Imports (in thousands of dollars)	Estimated percent imports of domestic production
1955	27,649	7.7
1960	73,579	18.3
1965	113,568	24.8
1967	174,846	35.9
1968 (1st 4 months)	(1)	(1)

(c) Baseball Gloves and Mittens
[In thousands]

	U.S. production	Imports	Percent imports of domestic production
1960	2,752	2,415	87.8
1961	2,225	2,801	125.9
1962	2,248	3,103	138.0
1963	1,704	3,013	176.8
1964	1,512	2,738	181.1
1965	1,028	3,481	338.6
1966	758	3,990	526.4
1967	581	3,345	575.7

[1] Not available.

Sources: U.S. Department of Commerce and Tanners' Council.

V. U.S. RAW MATERIAL EXPORTS

(a) Cattlehides

	Net exports (thousand hides)	Percent exports of domestic supply
1955	5,530	19.6
1960	6,568	23.8
1965	13,019	37.7
1967	11,603	32.5
1968 (1st 4 months)	3,793	32.1

(b) Calfskins and Kips

	Net exports (thousand hides)	Percent exports of domestic supply
1955	2,103	16.3
1960	766	8.9
1965	1,419	18.2
1967	1,612	26.4
1968 (1st 4 months)	660	33.7

Source: U.S. Department of Commerce, U.S. Department of Agriculture and Tanners' Council.

Mr. BURKE. Is there any further testimony?

Mr. GOLDSTEIN. Not at this time unless there are any questions?

Mr. BURKE. Are there any questions?

Mr. SCHNEEBELI. Mr. Goldstein, it is good to see you again. I remember the very fine display which your industry had over at the Congressional Hotel earlier this year. It was very persuasive, as you have been today. It is quite evident that you, as chairman of your industry group, are doing an excellent job in presenting to us graphically the situation of the industry. I think that your presentation has been excellent and congratulations.

Mr. Glass, your experience in Japan rather parallels my experience there in April in trying to persuade them as to the problem which their rising exports to us have created, particularly in the instance that I was concerned about at the time, my problem was their increasing exports of steel to us.

The bland reaction which I got from their legislators was, "We hope in 5 years' time to get around to trying to do something about this problem."

I think they are really taking advantage of our good nature, and it is about time we do something about it.

Mr. GOLDSTEIN. Thank you, Congressman.

Mr. SCHNEEBELI. Thank you for your testimony.

Mr. BURKE. Mr. Battin?

Mr. BATTIN. Yes, Mr. Chairman.

I don't think there is any question about my stated public stand on imports and quotas and tariff barriers, but you mentioned the export of hides.

Now, that was a bad thing, but don't we get into another real problem? I happen to represent an area which produces those hides. When a producer sees his price going up in available exports and then sees domestic industry, through the Commerce Department, be able to slap it down, he isn't very happy with it either. Where do we find the middle ground?

Mr. GLASS. Congressman, my answer to you would be that our objective should be to wed the interests of agriculture and industry and labor and if we would convert the cattle hides in the United States, the leather and finished products and the exports, too, because of the natural advantages of free competition, it would enable us to export those products and then we would all be better off and that would have been the case if we had had any sort of reciprocity in trade for the past 25 years.

Mr. BATTIN. But what we are both really talking about, I think—and it has at least been the understanding of many—is that the basic difference in cost of production would be compensated if we had a tariff barrier or a quota system or whatever device might be found to take care of the basic differential of the cost of production. I have no doubt that American manufacturers can compete any place in the world. Would you agree that it is a fair statement that we have one of two choices: We either bring our economy or our standard of living down until the world catches up, or we protect ourselves until the world catches up?

Mr. GOLDSTEIN. I would say that from our standpoint, I think all of us, that that is exactly right. That is obviously a fair question. In any college course I have taken, and I am not an economist, I certainly can understand that if they are earning 40 cents an hour in Spain and $2 here, I can't catch up until somebody helps me catch up.

I would like to compete and our whole industry would on a basis of style. That I would like to do, but we are not competing on that basis.

Mr. BATTIN. It sounds like an oversimplification, but it isn't. I don't hear too many people who advocate free trade also advocating that we change our standard of living here to a less desirable level, but I do believe sincerely that one goes hand in glove. If we don't face up to the very problems that you are testifying to today, which the steel industry testified to two days ago, the people in the oil business will be or have been in, our cattle people have been in, I don't know what the answer is.

I suppose that is the purpose of these hearings.

Mr. GOLDSTEIN. I would like to comment. I was approached just last week by a gentleman who said that if I wanted to go into an arrangement with him, I could send some leather down to the border near Mexico. They would take this leather that was cut in the United States, bring it into Mexico, they would sew it with people for $2 a day, $2 a day. They wouldn't finish the shoe as we finish it, Congressman Burke, up home, but would send it back half finished across the border so that we wouldn't have to pay taxes on that part of it; and I would bring it back up and finish the shoe in my factory and save whatever they talked about, $2 a day versus $2 an hour.

We told them we just weren't interested. This is what we are being offered. When I say that it is fair competition to sew shoes at $2 a day versus $2 an hour, I don't understand it. All of us at the table would agree that your statement is correct.

Mr. BATTIN. I am just seeking information. I don't have any idea if there has been much U.S. capital exported into countries that are now in competition and are we seeing our capital investment returned in the products that you have shown us here today.

Mr. GOLDSTEIN. To a degree. I would say that at the present moment there are certain manufacturers who will have some share of a factory over there. Of course you can only have 50 percent anyway, but up to that limit. In these factories they are 50 percent participants in the factory manufacturing the shoes.

I would also say in answer to certain questions we have been asked in the past—as to are there any American manufacturers bringing in imported shoes as a capital investment—there is also that; but from the standpoint of protecting yourself like an alley cat cornered by a dog. You don't see yourself liquidated if you have ability to stop it. You don't let someone kill you if you can stop him. This is the reason we do it; but without exception all of our people have stated that they would prefer to manufacture and to produce the footwear here in the United States which we could sell here in the United States on a fair basis.

The direct answer is that there is a limited amount that has been invested for that purpose.

Mr. MEYER. You will have to exclude Puerto Rico.

Mr. BATTIN. I am talking principally of countries such as Spain.

Mr. GLASS. That trend has gone substantially further in other leather products such as baseball gloves, other gloves, cases. Unquestionably in all of those product areas there has been a substantial movement through direct capital investment or some form of cooperative activity between the domestic manufacturer and producers abroad.

Mr. BATTIN. The textile people the other day indicated that if something were not done, they were going to be forced to try to establish themselves in Hong Kong and Korea in areas where their labor costs were such that they could compete by producing there and shipping to the United States.

Mr. GOLDSTEIN. I think it logical that if I have the knowledge of how to produce footwear for the U.S. market and am well aware of the styling factors and Mr. Meyer, who supplies me with leather right now, is well aware of the tanning business, then if we can't make our shoes cheap enough to compete, why shouldn't he and I go to Japan and produce them and sell them for half price here?

Should I stay in Middleboro and go out of business or go to Japan and stay in business? And that is exactly what is going to take place in every small town in America. It is a far more serious problem than the administration people realize.

Mr. BATTIN. Basically we are thinking of the basic problem today, the exportation of jobs.

Mr. GOLDSTEIN. That is it exactly. Forty-thousand jobs were exported or will be by 1970. There is no question about that. I pointed out that that ECAT study said that. They were trying to prove the opposite.

Mr. BATTIN. Thank you, Mr. Chairman.

Mr. BURKE. Mr. Goldstein, there have been many statements made by witnesses appearing before the committee that would indicate that the availabality of low-priced imports with their differential in cost benefitted the U.S. consumer.

Mr. GOLDSTEIN. These imports are being used for additional profit to the retailer primarily, but the differential in cost to the American consumer of the total amount of footwear which is produced and imported and so forth is so infinitesimal as compared to the fact that 25 percent of our jobs have been exported that the remaining market here wouldn't have any consumers left to purchase at least in the shoe industry.

We would say that the benefit of a few pennies to the consumer could not possibly be compared to the hurt that is done over an industry losing the workers. That would be and is our contention that there is only an infinitesimal amount.

Mr. BURKE. I have people tell me that some of these imported shoes are imported at very low wholesale prices, but are not selling at very low prices in the retail market.

Mr. GOLDSTEIN. That is exactly correct.

Mr. BURKE. There is a bigger margin of profit. The incentive to the retailer is to push this type of shoe because he is receiving a larger profit than with the American.

Mr. GOLDSTEIN. There is a jobber in Cincinnati with whom I talked exactly 1 week ago. He didn't know who I was and didn't know I was coming down here. We were talking about imports. He said, "The fact remains that I can buy women's vinyl boots for winterwear at $4.30 versus $6 here domestically, but he said, the fact remains when I as a jobber can get something like a 30 or 40 percent markup, which is unheard of in the jobbing business, what do you want me to do?"

He is taking the Japanese imported slush boots and selling them at the same competitive price as the domestic one and taking money and putting it into his pocket, which is fine, but it is not being passed on to the American consumer, and I question whether it is in many other instances.

Mr. BURKE. Now, Mr. Meyer, if you saw some reasonable limit to imports, do you think that there would be an expanding of the tanning business in Chicago?

Mr. MEYER. I could only answer personally. I would expand my plant immediately, and I am not saying for sure whether it would be in Chicago. It takes a lot of considerations. We have terrific technical problems. We use 1 million gallons of water a day.

Mr. BURKE. Is there a water shortage out there?

Mr. BATTIN. If you will yield, we have a lot of water in Montana.

Mr. MEYER. We know that. We would expand our business, yes.

Mr. BURKE. Mr. Gilbert?

Mr. GILBERT. Mr. Glass, we discussed the baseball glove problem and you cited a great number of figures. I know Boston isn't doing too well this year, but in a serious vein, I wonder if you can explain that a little further.

Mr. GLASS. The trend started some 10 years ago. You will notice from the table we have appended here to my statement that in 1960, going back 7 years, U.S. production according to the Department of Commerce was 2,752,000 units of baseball gloves and mitts; imports, 2,415,000; imports 87.8 percent of the total.

Last year, 1967, our domestic production was down to 581,000. We imported 3,345,000, complete with the signatures of all our baseball stars and that represented 575.7 percent of our domestic production.

Mr. GILBERT. Where were most of these gloves imported from?

Mr. GLASS. Initially they were entirely from Japan. Now they are from Japan, Taiwan, and Hong Kong. Japan is still the principal source.

Mr. GILBERT. You think that our trade policies in the past 20 years are bad, I take it.

Mr. GLASS. In my opinion, on the basis of the fact it is failure which is not admitted because of the ideological momentum that trade policies as other ideas tend to have.

Mr. BURKE. Thank you very much.

All your statements and all the exhibits attached thereto will be included in the record. We wish to thank all of you. You have presented excellent testimony.

Mr. SHANNON. May we put in the record this study done by the Department of Commerce, an excellent study on trade and tariff barriers on footwear going into other countries. We would like to make it a part of the record if possible.

Mr. BURKE. Without objection, so ordered.

Did you identify yourself?

Mr. SHANNON. Thomas Shannon, counsel.

(The study follows:)

U.S. DEPARTMENT OF COMMERCE, BUSINESS AND DEFENSE SERVICES ADMINISTRATION

Nonrubber Footwear: Tariff and Trade Regulations

Principal Countries of Destination for U.S.-Made Nonrubber Footwear—(SIC 3141–3142)—The European Economic Community (EEC) and The European Free Trade Association (EFTA)

In 1967, U.S. exports of nonrubber footwear totaled 2.2 million pairs valued at $8.2 million. These exports were the equivalent of four/tenths of 1 percent of the total quantity (594.2 million pairs) and three/tenths of 1 percent of the total value ($2.8 billion) of the industry's domestic shipments.

The principal markets in order of their importance were Canada, Mexico, Bahamas, Netherlands Antilles, Sweden, Hong Kong, Bermuda, Panama, Switzerland, and Japan. Exports to these ten principal markets accounted for 65.4 percent of U.S. exports of nonrubber footwear in quantity and 62.6 percent of their value.

Exports to the European Common Market (EEC) accounted for 4.8 percent of the quantity and 4.7 percent of the value of U.S. exports of nonrubber footwear, while exports to the European Free Trade Association (EFTA) accounted for 9.7 percent of the quantity and 11.6 percent of the value of U.S. nonrubber footwear exports. Exports to other countries accounted for 20.1 percent of the quantity and 21.1 percent of the value of all U.S. exports of nonrubber footwear.

CANADA

Imports

In 1966, Canadian imports of nonrubber footwear totaled 22.6 million pairs valued at US $26.3 million. Italy was the largest supplier, exporting to Canada 1.8 million pairs valued at $5.1 million. United Kingdom was second with 916,162 pairs with a value of $4.5 million, followed by Japan with shipments of 9.4 million pairs valued at $4.1 million.

In 1967, the United States exported to Canada 391,302 pairs of nonrubber footwear valued at $1.4 million.

Tariff and Trade Regulations

Under the British Preferential Tariff, nonrubber footwear imported into Canada from Commonwealth countries is dutiable in the range of 15 to 20 percent ad valorem. No concessions were made in the Kennedy Round on these rates. Before the Kennedy Round, under the Most Favored Nation Tariff, nonrubber footwear imported into Canada from the United States and non-Commonwealth countries was dutiable in the range of 20 to 27½ percent ad valorem. Pegged or wire-fastened boots and shoes, with unstitched, close edge soles, entering under Tariff Item 61100–1, were dutiable at 25 percent ad valorem.

Imports of boots, shoes, and slippers of any material not otherwise provided for, Tariff Item 61105–1, including most conventional footwear, were dutiable at 27½ percent ad valorem. Oriental sandals embroidered with gold or silver thread, Tariff Item 61105–2, were dutiable at 25 percent. Sisal footwear with cork, sisal, leather or rubber soles, Tariff Item 61115–1, was dutiable at 20 percent ad valorem. In the Kennedy Round, Canada made concessions which will reduce two tariff items in five stages. One-fifth of the cuts became effective January 1, 1968, and one-fifth will come on January 1, 1969, 1970, 1971 and 1972, respectively. The Most Favored Nation duties on Tariff Item 61100–1 will be reduced to 22½ percent in January 1972; a rate of 24½ percent became effective January 1, 1968. Tariff Item 61105–1 will be reduced to 25 percent in January 1972; a duty of 27 percent became effective January 1, 1968.

Canada made no concessions on Tariff Items 61105–2 and 61115–1, Canada levies a sales tax of 12 percent on the duty-paid value of all nonrubber footwear. This tax is also applicable to Canadian-made footwear. Canada requires no licenses for the importation of nonrubber footwear.

MEXICO

Imports

According to official Mexican statistics, imports of nonrubber footwear in 1966 total 420,367 pairs, plus 1,778 kilograms,* valued at US $849,226. The United States was the largest supplier with 251,660 pairs plus 887 kilograms, valued at $650,171, with Japan second with 111,534 pairs valued at $58,284. Italy was third with 4,253 pairs plus 212 kilograms valued at $23,951.

U.S. exports of nonrubber footwear to Mexico in 1967 totaled 302,863 pairs valued at $1.0 million.

Tariff and Trade Regulations

Mexican import duties are compound, i.e., there is a specific duty and an ad valorem duty. The ad valorem duty is levied on the invoice value, or on an official valuation set by Mexican customs, whichever is higher. Specific duties for nonrubber footwear imported into Mexico range from 0.20 to 40 Mexican pesos per pair (1 peso=$0.08). In addition to these specific duties, ad valorem duties ranging from 10 to 100 percent are charged. All nonrubber footwear imports into Mexico are subject to a surtax of 3 percent of the total duty, except imports by mail on which there is a surtax of 10 percent.

Leather footwear imports into Mexico are subject to strict import controls. Import licenses are required before orders may be placed.

Mexico made no concessions under the Kennedy Round.

BAHAMAS

Imports

No statistical data on Bahamian imports of nonrubber footwear are available.

In 1967, U.S. exports of nonrubber footwear to the Bahamas totaled 268,571 pairs valued at $862,882.

Tariff and Trade Regulations

Under the British Preferential Tariff, all imports of nonrubber footwear into the Bahamas from Commonwealth countries are dutiable at 10 percent ad valorem; nonrubber footwear from other than Commonwealth countries is dutiable at 20 percent.

Specific import licenses are required as a formality.

The Bahamian Government levies a surtax of 7½ percent ad valorem on all imports of nonrubber footwear.

The Bahamas did not participate in the Kennedy Round.

NETHERLANDS ANTILLES

Imports

In 1966, imports of nonrubber footwear into Netherlands Antilles totaled 681,960 pairs valued at $1.9 million. The United States was the major supplier with 287,760 pairs valued at $749,844. Italy was the second largest supplier with 112,824 pairs valued at $376,513, followed by the Netherlands with 67,344 pairs valued at $224,317.

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*Mexican statistics show imports of certain footwear items only in kilograms.

In 1967, U.S. exports of nonrubber footwear to Netherlands Antilles totaled 201,870 pairs valued at $608,766.

Tariff and Trade Regulations

Imports of nonrubber footwear of all kinds from all countries into the Netherlands Antilles are dutiable at 6 percent ad valorem.

An open general license for the importation of nonrubber footwear is required. Netherlands Antilles made no concessions under the Kennedy Round.

HONG KONG

Imports

According to official Hong Kong statistics, in 1966 imports of nonrubber footwear totaled 5.1 million pairs valued at $6.1 million. Red China was the major supplier shipping into Hong Kong 4.6 million pairs having a value of $4.1 million. United Kingdom was the second largest supplier with 111.444 pairs valued at $629,565; the United States was third with 72,624 pairs valued at $393,132.

In 1967, U.S. export of nonrubber footwear to Hong Kong totaled 82,282 pairs with a value of $454,590.

Tariff and Trade Regulations

There are no import duties, taxes or restrictions of any kind on the importation of nonrubber footwear into Hong Kong.

BERMUDA

Imports

In 1964, (latest available data) Bermuda imported 10,391 cases* of nonrubber footwear with a value of $873,314. The United States was the largest supplier of this imports providing 6,149 cases valued at $505,831. United Kingdom was second with 2,533 cases valued at $242,211, followed by Italy with 580 cases valued at $71,098.

In 1967, U.S. exports of nonrubber footwear to Bermuda totaled 105,827 pairs, valued at $360,567.

Tariff and Trade Regulations

Under the British Preferential Tariff, imports of nonrubber footwear into Bermuda from Commonwealth countries are dutiable at 7½ percent ad valorem. All other imports of nonrubber foowear are dutiable at 10½ percent ad valorem. Bermuda levies a surtax of 10 percent on all imports of nonrubber footwear.

Licenses are not required for the importation of nonrubber footwear.

Bermuda did not participate in the Kennedy Round.

PANAMA

Imports

According to official Panamanian statistics, imports of nonrubber footwear in 1966 totaled 189,672 pairs with a value of $606,676. Free Zone of Colon was the largest supplier with 121,213 pairs valued at $363,152. United States was the second largest supplier with 11,823 pairs valued at $84,000. Czechoslovakia was third with 22,310 pairs valued at $34,950.

U.S. exports of nonrubber footwear to Panama in 1967 totaled 73,127 pairs with a value of $252,814. The difference in Panamanian import statistics from the U.S. and U.S. export statistics probably reflects re-exports of U.S. nonrubber footwear from the Free Zone of Colon into the Panamanian market.

Tariff and Trade Regulations

Panama maintains a specific and an ad valorem duty on nonrubber footwear. Imports of leather sports footwear are subject to a 5 percent ad valorem duty. Specific duties ranging from 4.80 to 30 balboas per dozen (1 balboa = US $1.00) are charged on all nonrubber footwear.

Panama also levies a surcharge of 3½ percent ad valorem, f.o.b. port of origin of all imports.

Import licenses are not required.

Panama did not participate in the Kennedy Round.

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*Quantities of case lots are not stated in Bermudian statistics.

JAPAN

Imports

In 1966, imports of nonrubber footwear into Japan totaled 893,172 pairs and had a value of $1.6 million. Italy was the largest supplier with 78,108 pairs valued at $626,778, followed by Hong Kong with 174,612 pairs valued at $171,725. Switzerland was third with 8,700 pairs valued at $148,006.

In 1967, U.S. exports of nonrubber footwear to Japan totaled 24,975 pairs valued at $194,906.

Tariff and Trade Regulations

Under the Kennedy Round, Japan made no concessions in rates of duties on footwear of leather and part-leather or furskins, Tariff No. 64.02–1 and No. 64.02–2 (1). The general rate on these items is, and will continue to be, 30 percent ad valorem. Concessions were made on certain "other" footwear, Tariff No. 64.02–2(2); footwear with outer soles of wood or cork, Tariff No. 64.03; and footwear with soles of other materials, Tariff No. 64.04, which will reduce the current base rate of 20 percent on these items to 10 percent. These reductions are to be in four stages over a five-year period, two-fifths of the cut to come on July 1, 1968, and one-fifth on January 1 of 1970, 1971 and 1972, respectively.

Japan imposes quotas on and requires licenses for the importation of leather or part-leather footwear and footwear of furskins except for cetain slippers and sports footwear.

THE EUROPEAN ECONOMIC COMMUNITY

Tariff and Trade Regulations

The European Economic Community (EEC) composed of France, West Germany, Italy, Belgium-Luxembourg and the Netherlands, made concessions in the Kennedy Round which will reduce its Common External Tariff (CXT) rates on certain items of nonrubber footwear. The CXT becomes effective July 1, 1968. The reductions are to be made in four stages over a five-year period, two-fifths of the cuts will come on July 1, 1968, one-fifth each on January 1 of 1970, 1971 and 1972, respectively.

The CXT on certain "footwear with outer soles of leather, artificial leather, rubber or artificial plastic materials" and "footwear with uppers of natural leather," admitted under Tariff No. 64.02, will be reduced from 16 percent to 8 percent over the five-year period. No concessions were made in the Kennedy Round on "other" footwear admitted under Tariff No. 64.02 on which the CXT of 20 percent continues.

The CXT on "footwear with outer soles of wood or cork," admitted under Tariff No. 64.03, will be reduced from 18 percent to 9 percent over the five-year period. The CXT on "footwear with outer soles of other materials," Tariff No. 64.04, will be reduced over the five-year period from 14 percent to 7 percent.

WEST GERMANY

Imports

The Republic of West Germany is the largest importer of nonrubber footwear in the EEC. In 1966, Germany imported about 58 million pairs having a value of $157.2 million. Italy was the principal supplier shipping 27.3 million pairs valued at $76 million, followed by France with 7.9 million pairs valued at $21.6 million.

In 1967, U.S. exports of nonrubber footwear to West Germany totaled 66,171 pairs with a value of $172,173.

Tariff and Trade Regulations

The current rates of duties on nonrubber footwear imported into West Germany from United States and other nonmember countries of EEC range from 14 percent to 20 percent ad valorem c.i.f.

Effective July 1, 1968, these duties will move to the EEC Common External Tariff rates described above. The current rates of duties on nonrubber footwear imports into West Germany from EEC countries range from 1.6 percent to 2.5 percent. On July 1, 1968, these tariffs, like all other tariffs within the EEC, will be eliminated.

Effective January 1, 1968, West Germany imposed a 10 percent import equalization tax on the cost, insurance, freight (c.i.f) duty-paid value of all nonrubber footwear imports. This tax replaces a previous turnover equalization tax of 8 percent on most nonrubber footwear imports and a 6 percent levy on imports of footwear with outer soles of wood, cork and certain other materials.

No import licenses are required by West Germany for the importation of nonrubber footwear.

BENELUX COUNTRIES

Imports

Belgium-Luxembourg and the Netherlands are the second largest importers of nonrubber footwear in the EEC. In 1966, imports of nonrubber footwear into Benelux totaled 28.6 million pairs, with a value of $68 million. Italy was the principal supplier of these imports, exporting to Benelux 9.6 million pairs with a value of $25.9 million.

In 1967, U.S. exports to Benelux were negligible totaling 7,444 pairs valued at $32,844.

NETHERLANDS

Imports

In 1966, Netherlands imports of nonrubber footwear totaled 13.5 million pairs and had a value of $31.7 million. Italy was the principal source of supply with 5.1 million pairs valued at $13.3 million followed by West Germany with 1.9 million pairs valued at $6.1 million.

In 1967, U.S. exports of nonrubber footwear to Netherlands totaled 4,621 pairs and had a value of $11,039.

BELGIUM-LUXEMBOURG

Imports

In 1966, Belgium-Luxembourg imported 15.1 million pairs of nonrubber footwear valued at $36.3 million. Italy was the principal supplier with exports to Belgium-Luxembourg totaling 4.5 million pairs valued at $12.6 million. France was second providing 3.2 million pairs valued at $9.2 million.

In 1967, U.S. exports of nonrubber footwear to Belgium-Luxembourg totaled 2,823 pairs having a value of $21,805.

Tariff and Trade Regulations

The current rates of duties on nonrubber footwear imported into Benelux from non-EEC countries range from 14 to 20 percent ad valorem.

Effective July 1, 1968, these duties will move to the EEC (Common External Tariff) rates described above.

Benelux current rates of duty on imports from EEC countries range from 2.2 percent to 3.6 percent. Effective July 1, 1968, these duties, like all other tariffs within the EEC, will be abolished.

Belgium levies a transmission tax ranging from 7 to 17 percent on the c.i.f. duty-paid value on all imports of nonrubber footwear.

Luxembourg levies a 3 percent import tax and a 3 percent turnover tax on the c.i.f. duty-paid value on all imports of nonrubber footwear.

The Netherlands levies a turnover tax ranging from 5.8 to 9 percent on the c.i.f. duty-paid value of imports of nonrubber footwear except for certain footwear items of silk which are dutiable at 25.5 to 30.5 percent.

No licenses are required for the importation of nonrubber footwear into Benelux.

FRANCE

Imports

France was the third largest importer of nonrubber footwear in the EEC in 1966. That year France imported 15 million pairs with a value of $30 million. Italy was the principal source of supply providing some 6.2 million pairs, valued at $19.5 million. Switzerland was second with 235,450 pairs, valued at $2.4 million.

In 1967, U.S. exports of nonrubber footwear to France totaled 19,470 pairs, valued at $109,817.

Tariff and Trade Regulations

The current rates of duties on nonrubber footwear imported into France from non-EEC countries range from 16.4 to 20 percent.

Effective July 1, 1968, these duties will move to EEC CXT rates described above. The current rates of duties on imports of nonrubber footwear into France from EEC countries range from 2.25 to 3.75 percent. On July 1, 1968, these tariffs, like all tariffs within the EEC, will be abolished.

Under legislation introduced January 1, 1968, France levies a sales tax of 20 percent on the c.i.f. duty-paid value of all nonrubber footwear. The previous rate was 25 percent. This tax also applies to domestically produced merchandise.

France requires no licenses for the importation of nonrubber footwear.

ITALY

Imports

In 1966, imports of nonrubber footwear into Italy totaled 1 million pairs and had a value of $1.9 million. France was the largest supplier with 161,336 pairs valued at $665,762; United Kingdom was the second largest supplier with 64,889 pairs valued at $438,291.

U.S. exports of nonrubber footwear to Italy in 1967 totaled 13,173 pairs and had a value of $71,394.

Tariff and Trade Regulations

The current rates of duties on nonrubber footwear imported into Italy from non-EEC countries range from 14 to 20 percent.

Effective July 1, 1968, the EEC CXT rates described above, will be applicable to all nonrubber footwear imports into Italy. On certain items ad valorem duties are not permitted to exceed 108 lire (about US $0.17).

The current rates of duties on imports of nonrubber footwear into Italy from EEC countries range from 2.4 to 2.7 percent ad valorem. On July 1, 1968, these tariffs, like all tariffs within EEC, will be abolished.

Italy levies a sales tax of 4 percent of the c.i.f. duty-paid value of all nonrubber footwear imports and a compensating import tax of 5.4 percent of their value.

Italy requires no licenses for the importation of nonrubber footwear.

UNITED KINGDOM

In 1966, the United Kingdom was the largest importer of nonrubber footwear in the European Free Trade Association (EFTA). United Kingdom imports of this footwear totaled 19.1 million pairs valued at $40.7 million, Italy was the major supplier with 3.8 million pairs valued at $13.6 million. France was the second largest supplier with 984,986 pairs valued at $3.3 million. Hong Kong was third, supplying 5.3 million pairs valued at $2.8 million.

In 1967, U.S. exports of nonrubber footwear to United Kingdom totaled 27,722 pairs valued at $120,886.

Tariff and Trade Regulations

All imports of nonrubber footwear into United Kingdom from EFTA countries and Ireland are duty-free.

Currently, imports of most nonrubber footwear items from Commonwealth countries enter United Kingdom duty-free. Imports of footwear of silk or man-made fibers, or both, containing furskins, are dutiable at 20 percent. Under the Kennedy Round this rate was reduced to 9 percent.

Duties on imports of nonrubber footwear into United Kingdom from countries other than members of the British Commonwealth of Nations, European Free Trade Association (EFTA) and Ireland are levied either on a percentage of ad valorem basis, or as a specific duty, or as a specific duty as an alternative to an ad valorem duty. Where alternative duties are permitted, the rate chargeable is the greater.

Current ad valorem duty rates for imports of most nonrubber footwear items, from countries other than the British Commonwealth, EFTA and Ireland range from 15 to 22½ percent. Specific rates range from 10 pence (US $0.10) to 4 shillings (US $0.48). Footwear of silk or man-made fibers, or both, containing furskins, are dutiable at 30 percent ad valorem or in some cases at an alternative specific duty of 3 shillings.

In the Kennedy Round discussions, United Kingdom made certain modifications in tariff nomenclature. With relatively few exceptions, Kennedy Round concessions were made in the ad valorem or specific duties from the current base rate. These reductions will be in four stages over a five-year period, two-fifths of the cut to come on July 1, 1968, and one-fifth on each January 1 of 1970, 1971 and 1972.

Because of the complexity of its tariff structure, it is difficult to measure the overall impact of the United Kingdom reductions. Consequently, it is suggested that interested parties write to the Office of International Regional Economics, Bureau of International Commerce, U.S. Department of Commerce, Washington, D.C. 20230, mentioning specific items on which information is required.

United Kingdom levies a purchase tax of 11 percent on the wholesale, c.i.f. duty-paid value of all nonrubber footwear, except footwear suitable for young children. United Kingdom imports of nonrubber footwear require no licenses.

SWEDEN

Imports

In 1966, Sweden was the second largest importer of nonrubber footwear in EFTA with imports totaling 12.2 million pairs, valued at $32.6 million.

Italy was the principal source of these imports supplying 4.4 million pairs with a value of $15 million followed by United Kingdom with 466,597 pairs, valued at $2.3 million. Hong Kong was third, supplying 1.5 million pairs valued at $1.0 million.

In 1967, U.S. exports of nonrubber footwear to Sweden totaled 130,424 pairs, and had a value of $598,848.

Tariff and Trade Regulations

Imports of all nonrubber footwear into Sweden are currently dutiable at the rate of 14 percent ad valorem. Concessions were made under the Kennedy Round which will reduce this tariff to 9 percent on Tariff Nos. 64.03.000, "footwear with outer soles of wood or cork," on 64.04.100, "slippers and other similar house footwear" and 64.04.900 "other" footwear. The duty on all footwear with outer soles of leather or composition leather, rubber or artificial plastic material, except rubber and canvas footwear, admitted under Tariff No. 64.02, has been bound at 14 percent. Reductions will be made in four stages over a five-year period, two-fifths of the cut to come on July 1, 1968, and one-fifth on January 1 of 1970, 1971 and 1972, respectively.

Imports of nonrubber footwear from EFTA countries enter Sweden duty-free. Sweden levies a turnover tax of 11.11 percent on all nonrubber footwear imports. Sweden requires no licenses for the importation of nonrubber footwear.

SWITZERLAND

Imports

In 1966, Switzerland was the third largest importer of nonrubber footwear in EFTA. That year 7.3 million pairs valued at $25.1 were imported. Italy was the principal source of supply with 2.8 million pairs valued at $11.6 million. West Germany was the second largest supplier with 1.3 million pairs, valued at $4.3 million. France was third, supplying 857,532 pairs valued at $3.6 million.

In 1967, U.S. exports of nonrubber footwear to Switzerland totaled 40,148 pairs, valued at $197,412.

Tariff and Trade Regulations

Switzerland levies specific duties on all nonrubber footwear imports, except those from EFTA countries which are duty-free. The pre-Kennedy Round specific duties for imports of this footwear were in the range of 55 to 550 Swiss francs per 100 kilos (1 franc=US$0.23). Under the Kennedy Round, concessions were made which will lower these duties, in five stages over a five-year period, to a range of from 30 to 300 francs per 100 kilos. Reductions of one-fifth of the difference between pre-Kennedy Round rates and full Kennedy Round concessions were made, effective January 1, 1968. Similar reductions will be made on January 1 of 1969, 1970, 1971 and 1972, respectively.

Switzerland levies a sales tax of 5.4 percent of the c.i.f. duty-paid value of all imported nonrubber footwear.

No licenses are required for the importation of nonrubber footwear into Switzerland.

NORWAY

Imports

In 1966, Norway was the fourth largest importer of nonrubber footwear in EFTA. That year Norway imported 2.9 million pairs of nonrubber footwear valued at $20.9 million. The number of pairs is not available for countries of origin of these imports. Italy was the principal supplier to the Norwegian market with imports valued at $2.2 million. West Germany was the second largest supplier providing imports valued at $2.0 million.

In 1967, U.S. exports of nonrubber footwear to Norway totaled 5,516 pairs, valued at $11,530.

Tariff and Trade Regulations

Imports of nonrubber footwear from EFTA countries enter Norway duty-free. Under the Kennedy Round, Norway made no concessions on Tariff No. 64.02, nonrubber footwear with outer soles of leather or composition leather, rubber or artificial plastic materials. These items are dutiable in the range of 4.50 to 20 crowns per kilo, except for footwear with furskin uppers, which is dutiable at 60 Norwegian crowns per kilo (1 crown=US$0.14). Concessions were made on Tariff No. 64.03, footwear with outer soles of wood or cork, and Tariff No. 64.04, footwear with outer soles of other materials. Reductions on these items will be made in four stages over a five-year period, two-fifths of the cut to come on July 1, 1968 and one-fifth on each January 1 of 1970, 1971 and 1972, respectively. The range of the current base rates of duties on Tariff No. 64.03 is from 0.80 crown to 16 crowns, which will be reduced to 0.50 to 12 crowns. The current ad valorem rate of 25 percent on cork soled footwear with uppers of materials other than leather under this Tariff No. 64.03 will be reduced from 25 percent to 23 percent.

Under Tariff No. 64.04, the current ad valorem rate on "other" footwear, including slippers and house footwear, currently 20 percent, will be reduced to 18 percent.

Norway levies a turnover tax of 13.64 percent on all imports of nonrubber footwear.

Norway does not require licenses for the importation of nonrubber footwear.

DENMARK

Imports

In 1965, (latest data available) Denmark was the fifth largest importer of nonrubber footwear in EFTA. In that year Denmark imported 3.5 million pairs with a value of $10.6 million. Italy was the largest supplier with 1.3 million pairs valued at $4 million followed by West Germany with 372,600 pairs valued at $1.5 million.

In 1967, U.S. exports of nonrubber footwear to Denmark totaled 7,204 pairs with a value of $14,540.

Tariff and Trade Regulations

Imports of nonrubber footwear from EFTA countries enter Denmark duty-free. Under the Kennedy Round, Denmark made concessions which will reduce tariffs on certain items in Tariff No. 64.02, nonrubber footwear with outer soles of leather or composition leather, rubber or artificial plastic; in Tariff No. 64.03, footwear with soles of wood or cork; and in Tariff No. 64.04, footwear with soles of other materials. These reductions will be made in four stages over a five-year period, two-fifths of the cut to come on July 1, 1968, and one-fifth on January 1 of 1970, 1971, and 1972, respectively.

The duty on footwear with uppers of leather or composition leather, and outer soles of leather, composition leather, rubber or artificial materials, under Tariff No. 64.02, will be reduced from the current rate of 25 percent ad valorem with a minimum of 10 Danish crowns per kilo (1 crown=US $0.13) to 22.5 percent with a minimum of 9 crowns per kilo. No concessions were made on "other" footwear under Tariff No. 64.02; the current duties for two items in this category remain 18 and 25 percent ad valorem. The duty on Tariff No. 64.03, footwear with outer soles of wood or cork, will be reduced from 15 percent to 12 percent and Tariff No. 64.04, footwear with outer soles of other materials, from 18 percent to 14 percent.

Denmark levies a sales tax of 10 percent on the c.i.f. duty-paid value of all nonrubber footwear imports.

Denmark does not require licenses for the importation of nonrubber footwear.

AUSTRIA

Imports

In 1966, Austria was the sixth largest importer of nonrubber footwear in EFTA. That year, Austria imported 3.3 million pairs with a value of $9.3 million.

Italy was the principal supplier with 1.3 million pairs valued at $4 million and West Germany was second with 590,018 pairs valued at $2.2 million.
In 1967, U.S. exports of nonrubber footwear to Austria totaled 1,327 pairs valued at $5,661.

Tariff and Trade Regulations

Imports of nonrubber footwear from EFTA member countries enter Austria duty-free.
Under the Kennedy Round, Austria made concessions reducing tariffs only on Tariff No. 64.03, footwear with outer soles of wood or cork and on Tariff No. 64.04, footwear with outer soles of other material. These reductions will be made in five stages over a five-year period which started January 1, 1968, one-fifth of the reduction was made January 1, 1968, and one-fifth will be made on January 1 of 1969, 1970, 1971 and 1972, respectively.
No concessions were made on Tariff No. 64.02, nonrubber footwear with soles of leather or composition leather, rubber or artificial materials.
The current rates of duty for these items range from 25 percent to 29 percent al valorem.
The pre-Kennedy Round rate for Tariff No. 64.03 and No. 64.04 was 28 percent, less a temporary reduction of 10 percent. Effective January 1, 1968, this rate was reduced to 25.2 percent, less the temporary 10 percent reduction, and will be reduced finally to 14 percent by 1972. Austria levies an 8.25 percent turnover equalization tax on the c.i.f. duty-paid value of all nonrubber footwear imports.
Austria requires licenses for imports of nonrubber footwear, however, they are freely granted.

FINLAND

Imports

In 1966, Finland was the second smallest importer of nonrubber footwear in EFTA. Finnish imports that year totaled 1.2 million pairs with a value of $3.2 million. Italy was the principal supplier providing 311,126 pairs valued at $1.3 million followed by West Germany with 99,419 pairs valued at $313,750. U.S. exports of nonrubber footwear to Finland in 1967 totaled 2,254 pairs valued at $5,528.

Tariff and Trade Regulations

Imports of nonrubber footwear from EFTA member countries enter Finland duty-free.
Finland made concessions in the Kennedy round which will reduce duties of most nonrubber footwear items entering under Tariff Nos. 64.02, 64.03, and 64.04. This reduction will be made in four stages over a five-year period, two-fifths of the cut to come on July 1, 1968, and one-fifth on January 1 of 1970, 1971 and 1972, respectively.
Current base rates for nonrubber footwear are in the range of 20 percent to 30 percent ad valorem with a minimum duty of from 1.20 finmarks to 7 finmarks (1 finmark = US $0.24) per kilo specified in six items. Kennedy Round concessions will reduce these duties to a range of from 10 percent to 20 percent by 1972. Low shoes and sandals will be reduced from 23 percent to 20 percent ad valorem. Specific duties will be reduced to a range of from 0.60 to 6 finmarks.
Finland levies a 12.4 percent turnover tax on the c.i.f. duty-paid value of all nonrubber footwear. Licenses are required for the importation into Finland of all nonrubber footwear entering under Tariff No. 64.02, footwear with outer soles of leather, composition leather, rubber or artificial plastic materials.

PORTUGAL

Imports

Portugal is the smallest importer of nonrubber footwear in EFTA. In 1966, imports totaled only 156,128 pairs valued at $129,103. Macao was the principal supplier with 137,274 pairs valued at $53,457, followed by France with 2,805 pairs valued at $32,763.
In 1967, U.S. exported 500 pairs of nonrubber footwear to Portugal. These exports were valued at $3,125.

Tariff and Trade Regulations

Portugal levies specific duties on imports of nonrubber footwear. Imports from EFTA countries into Portugal are duty-free except for two items: (1) footwear of fabrics of silk or man-made textile fibers, with outer soles of leather, composition leather, or rubber or artificial plastic materials, are dutiable at 100.8 Portuguese escudos (1 escudo = US $0.035) per pair, and (2) certain other footwear with soles of unspecified materials are dutiable at 16.8 escudos per pair.

Imports of nonrubber footwear from countries other than EFTA are dutiable in the range of 28 to 168 escudos per pair.

Portugal did not make concessions on nonrubber footwear under the Kennedy Round.

Portugal levies a transaction tax of 7 percent on the duty-paid c.i.f. value of all imports of nonrubber footwear.

Licenses for the importation into Portugal of nonrubber footwear are required, but are freely granted.

U.S. EXPORTS OF NONRUBBER FOOTWEAR TO MAJOR COUNTRIES: EEC, AND EFTA COUNTRIES, 1967

[Quantity in Pairs, Value in U.S. Dollars]

	Quantity	Value
Major countries:		
Canada	391,302	1,383,487
Mexico	302,863	1,030,920
Bahamas	268,571	862,882
Netherlands Antilles	201,870	608,766
Hong Kong	82,282	454,590
Bermuda	105,827	360,567
Panama	73,127	252,814
Japan	24,976	194,906
Total	1,450,817	5,148,932
EEC countries:		
West Germany	66,171	172,173
France	19,470	109,817
Italy	13,173	71,394
Belgium-Luxembourg	2,823	21,805
Netherlands	4,621	11,039
Total	106,258	386,228
EFTA countries:		
Sweden	130,424	598,848
Switzerland	40,148	197,412
United Kingdom	27,722	120,886
Denmark	7,204	14,540
Norway	5,516	11,530
Austria	1,327	5,661
Finland	2,254	5,528
Portugal	500	3,125
Total	215,095	957,530
Other countries	444,887	1,734,375
Grand total all countries	2,127,057	8,227,065

Source: BDSA data based on Bureau of the Census Reports.

Mr. BURKE. Our next witness will be George O. Fecteau.

We welcome you to the committee, and, if you identify yourself and your organization for the record, you may proceed.

STATEMENT OF GEORGE O. FECTEAU, GENERAL PRESIDENT, UNITED SHOEWORKERS OF AMERICA, AFL-CIO; COORDINATING WITH JOHN E. MARA, PRESIDENT, BOOT & SHOEMAKERS UNION

Mr. FECTEAU. Thank you, Mr. Chairman.

My name is George O. Fecteau. I am general president of the United Shoe Workers of America, AFL-CIO.

In the interest of saving time and avoiding repetition Mr. John E. Mara, general president of the Boot & Shoe Workers' Union, and I have agreed that I shall represent both unions since the testimony I am about to give applies to our respective memberships.

Together our memberships total in excess of 100,000 shoe workers in the States of Alabama, Arkansas, California, Connecticut, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Tennessee, Texas, Virginia, Washington, West Virginia, and Wisconsin.

The people we represent are engaged in the manufacture of footwear and component parts thereof.

Our unions recognize the necessity of a policy and program of trade expansion, full employment and vigorous, healthy economy as the national objective. We endorsed and supported the Trade Expansion Act of 1962. We wish that we could share our President's enthusiasm for the proposed Trade Expansion Act of 1968. However, as representatives of shoe workers who depend on the shoe industry in the United States for their livelihood, we fear that the proposed Trade Expansion Act of 1968 by itself will only accelerate the loss of job opportunities in the American shoe industry which was experienced under the Trade Expansion Act of 1962. To the shoe workers whom we represent and to thousands of others throughout the country, reciprocal trade under this act has meant a growing nightmare of imports of millions of pairs of unessential foreign made shoes, with America exporting thousands of badly needed jobs.

SHOE FACTORIES AND SHOE WORKERS

It may be helpful at this point to give some idea of the scope of the economic impact of the leather shoe manufacturing industry, and some information about the location of shoe factories and the makeup of the work force which will help to explain why the shutdown of factories in this industry would constitute such a serious problem.

Including both production and nonproduction employees, there was an average of 229,000 persons directly employed in the industry in 1967. It is estimated that this employment was spread among about 800 companies with over 1,100 factories scattered in some 600 cities and communities in 41 different States. Counting the employees engaged in the manufacture of components, materials, equipment and machinery, a total of 350,000 to 400,000 persons depend on the industry for their employment.

Community industrial development agencies interested in attracting new industry have sometimes used the rough measure that a plant employing 500 people affects the economic welfare of 1,500 to 2,000 people. On the basis of this rough measure, shoe manufacturing in the United States affects the economic welfare of a million to a million and a half citizens.

A significant point in this connection is the fact that most shoe factories are located in small communities. In many cases they are the major factor in the economic life of the community or make an important contribution to the support of that economic life. In so many communities, if the shoe plant should shut down, the impact on the community would be tragic.

Many communities in which there are shoe factories now operating are already areas of stubborn unemployment. In a statement which I presented to the Tariff Commission in 1964 in connection with the GATT hearings I listed over 100 communities which had shoe factories and which were classified by the Department of Labor as areas of substantial unemployment in the midst of general prosperity. The situation in many of these areas has no doubt improved since 1964, perhaps only temporarily. In any event, the shutting down of the shoe factories in these communities would seriously aggravate a hard-core unemployment problem.

There is another important aspect in which the shutting down of shoe factories would add to the hard-core unemployment problem. The shoe industry is an old industry, and a large part of its work force has grown old in its service. The United Shoe Workers of America made a survey this year of 6,000 shoe workers in the State of Massachusetts. Their average age was 52½ years; their average service 24½ years in the industry. The figure may be somewhat lower in other areas, but it would be generally true that the shoe workers are a relatively older work force, with long years of service. When their plants shut down, these people can hardly be expected to uproot themselves and move to other areas for employment, even if other employers were willing to hire them. Nor are workers displaced from their industry at such high ages favorable prospects for retraining for skilled employment in newer rising industries. This is not a reflection upon the skill, ambition, energy or character of our members who have given long years of skilled service to the shoe industry. It is a hard fact of manpower retraining which the history of our retraining efforts has amply documented.

In some of our larger cities the shoe industry has offered an avenue of employment to disadvantaged minority groups. If they lose their employment in the shoe industry, they may revert to the hard-core unemployed in the ghetto, aggravating a problem which the Government already finds almost insoluble.

I have tried to show above the serious consequences, in terms of personal tragedy, community welfare, and increased social tensions, which flow from the loss of present and future job opportunities in the shoe industry.

GROWTH OF FOOTWEAR IMPORTS AND EFFECT ON AMERICAN MARKETS

With the above background, let us now look at the facts with respect to the growth of footwear imports.

In 1960, the United States produced a total of 600,041,000 pairs of nonrubber footwear. In 1967, the comparable figure was 603,214,000 pairs, an increase of slightly more than 3 million pairs, or one-half of 1 percent.

In 1960 imports of nonrubber footwear totalled 26,617,000 pairs. In 1967, total imports of such footwear came to 129,134,000, for an increase of nearly 400 percent.

The effect of relatively stagnant domestic production and sharply rising imports has been a striking increase in the proportion of domestic consumption which is accounted for by imports. In 1960, imports of leather footwear equalled 4.4 percent of U.S. production. By 1967, the percentage had increased to 21.4 percent, with nearly one-third of the total increase having been accounted for in 1966.

The speeded-up pace of footwear imports has not let up in 1968, but, if anything, it has accelerated.

Figures for the first quarter of 1968 show that leather footwear imports amounted to 52 million pairs, up approximately 49 percent over the same quarter of 1967.

Each U.S. shoe factory make specific types of footwear. Total imports of nonrubber footwear amounting to 21.4 percent of domestic production take on added significance to the factories and workers involved when applied to imports by product types. For instance, imports of women's casual shoes in 1967 amounted to 90 percent of domestic production, women's dress shoes, 28 percent; and men's cement footwear, 25 percent.

While U.S. production of nonrubber footwear increased by only a little over 3 million pairs between 1960 and 1967, the U.S. market or consumer demand for such footwear increased nearly 106 million pairs—from 626,658,000 in 1960 to 732,348,000 pairs in 1967. Thus any benefit from the American consumers' increased demand for nonrubber footwear between 1960 and 1967 went to foreign producers and was denied American shoe manufacturers and their workers.

In 1960 there were approximately 216,000 American shoe workers directly engaged in the production of nonrubber footwear. In 1967 this number had decreased to approximately 201,000 workers for a loss of about 15,000 production jobs in the shoe industry. This is in large part a reflection of the growing efficiency of American shoe production, with 7 percent less production workers needed to produce a slightly larger output.

Against this natural decline in employment in the American shoe industry, consider that imports of 21.4 percent of domestic production might represent about 43,000 job opportunities in 1968. If leather footwear imports continue to increase at present rates, 76,000 job opportunities will be absorbed by imports by 1970. If imports continue unchecked and U.S. companies continued to open more factories abroad while closing more factories here, it is entirely conceivable that by 1980 the shoe industry will have entirely vanished from the American scene.

There is another factor in the import picture which is adversely affecting the American shoe worker. Increasingly, American manufacturers are importing partially completed footwear. Complete shoe uppers, cut and fitted and ready to have the soles attached, are being brought in. By this arrangement, operations representing about half of the work are done abroad, at low foreign rates of pay.

Figures on the numbers of such units imported are not available, but the dollar value of cut shoe uppers which is the nearest we can come to it, imported in 1967 was $1,860,000, and at the rate for the first 3 months of 1968, the total for the current year with exceed $2,500,000. The largest increase in this type of import of partially finished footwear are from Spain, Italy, and Mexico.

American shoe workers do not believe that it is more important to make jobs for Japanese, Italians, Spanish, or Mexican workers than it is for them, nor do they believe that reciprocal trade means trading their jobs for foreign made shoes, nor are they willing to stand by and let the American shoe industry and their means of livelihood become the sacrificial goat for those free traders who consistently oppose any meaningful protection of their jobs and this vital part of America's economy.

I should like to note in retrospect, that we have been warning of the developing danger of footwear imports for many years. In 1960, in a statement to Members of Congress pointing out the growing problem represented by a growth in footwear imports from slightly over 1 percent of domestic production in 1954 to about 3.5 percent in 1959, we urged "proper remedial action at this time to prevent the inevitable consequences if this trend is allowed to continue unchecked."

In May of 1964 President Mara and I were members of a committee which, under semigovernmental auspices, met with representatives of the Italian shoe manufacturers in Milan, Italy, to try to work out an acceptable system of voluntary controls on Italian imports of footwear to the United States. The effort was failure. In part the Italian manufacturers blamed the pressure on them from American shoe importers to resist any reasonable system of controls.

In 1964, when imports had grown to over 12 percent of domestic production, we urged in the GATT hearings that—

> Lowering the tariff rates on footwear at this time would result in a flood of footwear imports which, in combination with other factors affecting the shoe industry in the United States, would have an adverse effect upon American shoe workers and upon the communities in which they live.

Our members are now asking, "How high must the import percentages rise before serious attention will be given to our problem?"

In a basic sense, it is not only our problem but the country's problem. The footwear industry is an essential industry whose products were rationed during World War II. If we allow imports to run rampant and eventually destroy the shoe industry in America as excessive imports have destroyed other industries, what assurance would we have that the American people and its fighting men would have an ample supply of footwear in any future war?

BASIS OF FOREIGN COMPETITION

The question may be asked: How can this happen if the shoe industry in the United States is modern, competitive, alert to changes in markets, and possesses the capacity to produce more shoes than America consumes? The answer is relatively simple. The economic structure of shoe manufacturing in foreign countries is similar to our own. Shoe manufacturing is relatively easy to enter and there are hundreds of factories to supply their domestic as well as foreign demands.

Because footwear is a necessity, shoe factories were among the first to be reconstructed in foreign countries following the war. Through U.S. aid, many of these plants have been rebuilt and modernized, and today they are among the most efficient in the world. In addition, many U.S. companies have bought into or bought out companies abroad and now export shoes to the United States. It has become a growing necessity for more and more U.S. manufacturers to open factories abroad or to become importers and close their factories at home in order to meet competition from foreign shoe companies and the ever increasing number of U.S. shoe companies which have located in foreign lands and now export shoes to the United States.

Shoe manufacturing is actually an assembling operation and the labor cost in producing a pair of shoes amounts to 25 to 30 percent of the total cost. Modern shoe machinery is of a relatively simple nature and is easily available in any of the countries who export footwear to the United States. The productivity of larger factories in England, Italy, and Japan which supply the export market, approximates and in some cases even exceeds that of American factories producing comparable footwear. Wages in these countries, however, range from a half to less than a fifth of wages paid in the United States; and in all cases do not even approach Federal minimum wage requirements that must be met here.

This means that foreign countries may land shoes in the United States at prices 20 to 50 percent lower than equivalent footwear produced here. This boils down to a simple case of lower price labor in foreign countries competing against higher price labor in America. It may be true that some foreign-made shoes are accepted in the American market because of style and designs, but the great majority penetrate our markets solely because of differences in price. While such difference in price stimulates greed for greater profit by foreign countries and by U.S. retail outlets, they are by no means passed on to the American consumer, as many free traders would have you believe.

U.S. shoe retailers, who are in intensive competition with each other for a greater share of the retail market, search continuously for ways to widen their profit margins while underselling their competitors. By purchasing shoes made abroad at savings of 20 to 50 percent and pushing such shoes upon the American consumer, such retailers are able to accomplish both objectives. Therefore, there is every encouragement for retail outlets to buy more footwear from lower wage countries and less from domestic producers. Consequently, more and more U.S. manufacturers of shoes are closing U.S. factories and opening new factories abroad either because they can no longer meet competition from imports or because they have discovered that their customers in the United States can be supplied with shoes made abroad that yield greater profits.

Some exponents of free trade insist that America's answer to excessive and ruinous imports is more exports. However, the facts are that leather footwear imports in 1967 were 58 times as high as footwear exports, which incidentally had declined 52 percent from 4.6 million pairs in 1955 to 2.2 million pairs in 1967.

This imbalance of trade in the shoe industry is because shoe tariffs in the United States are the lowest of any important trading country in the world. In the United States too, there are no other hidden taxes or restrictions which must be taken into account in calculating the final level of footwear costs in certain countries. This discriminatory action against American-made footwear may have been justified while the European and Japanese industries were being modernized. Now, however, the trading picture has become completely out of balance since the same technology and equipment are now used in these countries as in the United States and these countries still have the tremendous advantage of extremely cheap labor.

INADEQUACY OF ADJUSTMENT ASSISTANCE

The thousands of American shoe workers, their dependents and the communities in which they live and work suffer most in this trading off of American jobs for excessive imports of foreign-made shoes. There are no jobs for the American shoe workers when their employers close factories and become importers. They cannot ply their skills and trade in foreign countries when their employers become foreign manufacturers. They cannot compete with the wages paid in Japan, Italy and other foreign countries. They must earn their living in the shoe trade here or they don't earn it at all.

To them, the so-called Adjustment Assistance under the Trade Expansion Act of 1962 has proven to be nothing more than a cruel hoax and a false promise. Assistance has been denied every group of workers who has applied for it and others have been discouraged from embarking on the same frustrating routine. For instance, my own union, the United Shoe Workers of America applied for adjustment assistance on behalf of its members in November 1967 after the Knapp Shoe Co. had closed its Packard division in Brockton, Mass. The Union's petition was denied when the Tariff Commission reported to the President the results of its investigation.

> The Commission found that footwear like or directly competitive with the welt footwear produced by the Packard division is not, as a result in major part of trade-agreement concessions, being imported into the United States in such increased quantities as to be the major cause of the unemployment or underemployment of certain workers of the Packard division.

The Tariff Commission's report which amounted to denial of any assistance to these affected workers was obviously based on a meaningless technicality contained in the Trade Expansion Act of 1962 despite the fact that imports of the type of shoes involved (men's welt footwear valued over $6.80 per pair) increased from 4,937,000 pairs in 1965 to an estimated 8,350,000 pairs in 1967, an increase of nearly 70 percent in 2 years.

We see little chance that the adjustment assistance clause in the proposed Trade Expansion Act of 1968 will be sufficiently liberalized to meet the requirements of displaced workers. Even if it were liberalized to some extent, it could not possibly meet the needs of American shoe workers who have lost their jobs to foreign competition. I have given the reasons for this conclusion at length earlier in discussing the shoe workers and their communities.

SUMMARY

(1) While we firmly believe in world trade and intelligent elimination of trade barriers as soon as possible, it cannot be denied with any degree of logic that certain high labor content industries in the United States must be protected against the results of extremely low wages paid abroad.

(2) While any further lowering of U.S. tariffs would certainly aggravate the import problems of the American shoe industry, we do not believe that further upward or downward fiddling with tariffs is the answer to our problem.

(3) That while we are willing to share our domestic shoe market, we are not willing to turn it over lock, stock, and barrel along with the industry and jobs it provides to foreign countries.

(4) However, we see no logical way of preventing this except to regulate or establish reasonable quotas on imports of foreign-made shoes that would allow such countries to enter our markets but would prevent them from taking these markets over.

(5) We completely reject the theory that this or any other American industry is expendable and if necessary should be allowed to expire rather than risk antagonizing foreign countries into boycotting goods that America produces that they purchase from America.

(6) While we do not profess to be experts in foreign trade, we do believe that foreign countries buy from us because they need the goods we produce at the price and quality we produce them for, and that they will not deviate from this sound economic practice simply because America takes reasonable and necessary steps to protect its industries and the jobs they provide.

In the light of the rapid increase in footwear imports in recent years and the threat which this trend, if it is allowed to continue unchecked, represents to the employment prospects, income and standard of living of our members, the United Shoe Workers and Boot & Shoe Workers Unions strongly urge that measures be taken to protect the American shoe worker from further injury by competition from underpaid labor in foreign countries. We sincerely believe that such measures are necessary now if the American shoe industry is not to go the way of other industries which, too late, have found themselves irreparably injured by competition from exploited foreign labor abroad.

Thank you very much.

Mr. Burke. Thank you.

Are there any question?

Mr. Fecteau, the committee wishes to thank you for your testimony and also we wish to express our thanks through you to Mr. John E. Mara, general president of the Boot & Shoe Workers Union. I believe that you have very clearly explained the problems of the people employed in the shoe industry and we commend you for your fine statement.

Mr. Fecteau. Thank you, Mr. Chairman.

Mr. Burke. Our next witness is Mr. Joseph F. Donohue.

Mr. Donohue, you are welcome to the committee. If you will identify yourself and your associate for the record you may proceed.

JOINT STATEMENT OF JOSEPH F. DONOHUE, NONRUBBER FOOTWEAR GROUP, AND NOEL HEMMENDINGER, IMPORTED FOOTWEAR GROUP, AMERICAN IMPORTERS ASSOCIATION

Mr. Donohue. Mr. Chairman and gentlemen of the committee, my name is Joseph Donohue. I am an attorney from New York City and I appear here in behalf of the American Importers Association, a nonprofit organization of importers. That association has two footwear groups. I represent one, and seated with me at the table is Mr. Noel Hemmendinger, attorney from Washington, D.C., who represents the other. Mr. Hemmendinger will speak to you later on the subject of the American selling price. Mr. Hemmendinger and I have filed a joint statement in behalf of our groups in the interest of a more efficient presentation.

Mr. Burke. If you wish the entire statement will appear in the record as presented.

Mr. DONOHUE. Yes. We have filed the statement and I ask, please, that the entire statement appear in the record.

Mr. BURKE. Without objection, so ordered.

Mr. DONOHUE. I shall not read any part of this statement now but rather I would like to comment generally on the presentation that has been made and perhaps answer some of the points that have been raised by the representatives of the domestic industry. I think it is appropriate to note at the outset that the average rate of duty imposed on all imports is 12.2 percent and the arithmetic average of all of our rates of duty on footwear is 14.8 percent.

Accordingly, the rates of duty imposed upon footwear are somewhat higher in average than the general assessment of duty on all of our dutiable imports.

It is undeniably true that there has been an increase in imports of footwear. The question of whether that increase has really injured the domestic industry might best be answered by references to statements of the industry itself. I state, based upon what I have been able to examine and what has been incorporated in our submission, that the American industry is sound and prosperous, that overall its prosperity is improving and increasing, and I take my statement from, for one, the annual reports of some of the leaders in the industry. Perhaps the biggest of all shoe manufacturers in the United States is Brown, Interco, Melvill, and Genesco, I think, rank as the second, third, and fourth. You will find in the most recent annual statements that each of those companies is applauding its success and announcing that it has reached records in sales, in production and in earnings, that outstrip their previous record-breaking year of 1966. Endicott-Johnson, United States Shoe, and Wolverine are perhaps next in order of financial importance and volume of business. You will find in their annual statements some references to a slight decline in sales or a slight decline in earnings when compared with the previous year but in each instance an explanation is given and, while we have prepared a little chart showing 19 different reasons for whatever decline or change in business has occurred, it is significant that no report in any instance states that any decline is chargeable to imports or to an increase in imports. For example, one industry noted that its sales had decreased but because its business theretofore had included a tannery which was unprofitable and, therefore, they had closed the tannery and their sales decreased, but none of these companies indicated that any of their problems, if problems they had were chargeable to increases in imports and, therefore, their annual statements support assertion that their little declines in business in the instances where the declines occurred were chargeable to other domestic conditions.

We have given in our memorandum rather copious references to the trade press and here again it seems to be the general consensus of the manufacturers and sellers of domestic shoes that 1967 has been a banner year.

Our friends who preceded us and represented the domestic industry filed a brief with the committee in which they stated that during the first quarter of 1968 the sales had increased about 9 percent and so I would say that the report of the domestic industry is virtually unanimous and that report speaks of prosperity and not of injury from imports. The explanations for the slight declines by some of the companies have given a variety of reasons but running through them all has been a reference to labor shortage and, again quoting them, I state that if there has been a decline in shoe production, it is chargeable in large measure to labor shortage. I note that those who preceded us spoke of a prospective loss of job opportunities projected into 1970 but in truth there has been very little loss of actual jobs at the present time in view of the fact that there is a labor shortage in the shoe industry.

You will find reference in our brief to statements from manufacturers that, "If we had more men we would produce more shoes."

Now, of course, in any industry as large as the shoe industry there is likely to be from time to time labor dislocations when one industry closes or when one area shifts from the manufacture of shoes to the manufacture of something else but that cannot be called a surplus of labor. That is a labor dislocation.

I think it should be said because here again you will find references to it in the trade press that in some instances and under some circumstances imports have helped the domestic industry. They have helped the domestic industry, for example, in introducing into the United States the knee high women's boot which was first handcrafted and made with expensive leathers to sell for $40 to as high as $100 per pair retail and after the imported article became a success it was modified, mass produced and sold at much lower prices in perhaps less expensive but equally durable materials to the American public; and so there is one instance where the introduction of a new item helped the domestic industry. It has been so with the variety of men's shoes, the differences in styles that first were introduced principally by imports and later copied by domestic manufacturers.

There is a line of shoes manufactured in Switzerland called the Bally which has been largely copied by American manufacturers because they were first imported and demonstrated to be popular. We say too that imports help the public. There is a line of shoes imported from Japan, casual shoes made of materials other than leather that retail at prices from $1 to $2. These are a different line of shoes than those referred to by the domestic people earlier that retail for $3, $4 and $5. These are really shoes that can be purchased by people who might not otherwise be able to afford a pair of shoes and, if we are considering the public as a whole and emphasizing our attention, as appropriately we are, on the poorer classes who are underprivileged and unable to buy the more expensive products, we should bear in mind that those people can buy these dollar, $2, $3 shoes that come from Japan when they might otherwise be without a pair of shoes.

I think in the face of the labor shortage in the shoe industry, the import trade has done a service to the public and perhaps to the shoe industry too because the natural result of a labor shortage is that the price of the product increases and here import competition has tended to prevent those increases in prices from becoming too steep. Those of us who pay the prices will say they are enough but import competition has held the price down and that is a note I would say in behalf of the American public and an item that speaks well for the import industry.

I observed that your committee was shown exhibits of shoes imported and compared with domestic counterparts where there was a substantial price disparity. I can quote another branch of the Government to you, the Treasury Department, which during the past several years has held several investigations under the Anti-Dumping Act to determine whether imports of shoes from the countries mentioned by the other people, Roumania, Czechoslovakia, and that is all that occurs to me now, were being sold at less than fair value, being imported as a result of sales at less than fair value, and in every instance but one the Treasury Department found that the shoes were not being imported as a result of sales at less than fair value. The one exception dealt with men's work shoes. Here the Treasury Department found evidence of sales at less than fair value and in accordance with the Anti-Dumping Act the case was referred to the Tariff Commission but the Tariff Commission found that there was no injury to the domestic industry as a result of such importations of work shoes, and so I think you have a record of complaint by the domestic industry with respect to imports and findings by the Treasury Department either of no sales at less than fair value or of no injury.

Because I am familiar with those work shoes I am interested in refuting, if I may, the general assertion that was made that imported articles sell sharply below domestic counterparts and so I have brought two exhibits.

Here are two shoes, one made in Czechoslovakia and the other in the United States, and they are known as garage oxfords. Their distinguishing characteristic is a sole of neoprene or some such synthetic rubber material that resists petroleum gasoline and the like. They are worn by policemen, by garage attendants, and the imported shoe sells by the importer to the distributor for $4.10, and its domestic counterpart for $4.40. I don't call that such a terrible disparity particularly when the evidence is that the shoes are retailed at exactly the same price.

This is the workingman's shoe. This is the so-called 6-inch work shoe, one made in the United States. This is the so-called process 82 shoe. I think it is made by Mr. Goldstein's firm but I would not be sure. This is a Czechoslovakian counterpart and they sell at exactly the same price. So here is evidence of a kind that was before the Tariff Commission and based upon exhibits taken from the trade today which demonstrates that the imports and the domestic counterparts sell at parity or at close to parity with each other. That I think concludes my statement in behalf of the importers.

(Mr. Donohue's and Mr. Hemmendinger's joint statement follows:)

JOINT STATEMENT OF NOEL HEMMENDINGER, IMPORTED FOOTWEAR GROUP AND JOSEPH F. DONOHUE, NON-RUBBER FOOTWEAR GROUP, AMERICAN IMPORTERS ASSOCIATION

INTRODUCTION

This is a joint statement of the Imported Footwear Group of the American Importers Association, whose members are concerned largely with the importation of rubber and plastic (vinyl) footwear, mostly from the Far East, and of the newly organized Non-Rubber Footwear Group, whose members are concerned chiefly with the importation of leather footwear, mostly from Europe.

TARIFF COMMISSION INVESTIGATION

The most important factor that affects the problems of trade in imported footwear today is that the Tariff Commission has been asked by the President and the Chairman of the Ways and Means Committee to conduct an investigation of the effect of imports on the American Footwear industry. The Tariff Commission has announced that it will hold hearings on September 9, and in the meantime it is collecting data. It is the purpose of our statement not to present facts in detail which by themselves can be the basis of judgment, but to illustrate to this Committee the complex nature of the American footwear industry and the beneficial role that footwear imports are playing in the American economy. The conclusion is unavoidable, we think, that legislative action should not be taken to restrict imports, certainly not before the Tariff Commission report has been made and fully evaluated.

THE STATUTE

Submitted herewith as Exhibit B are Sections 700.05–700.85 of the Tariff Schedules of the United States reflecting rates of duty on twenty-three categories of non-rubber footwear. Twenty-seven categories are listed. Four of these, however, apply to footwear made 50% or more of rubber. Column one in the schedules give current rates and column two shows the "non-trade agreement rates." These are substantially as enacted in 1930 and still apply to imports from communist countries.

The Department of Commerce, Bureau of Foreign Trade states that the composite average tariff on all U.S. imports in 1967 was 12.2%. This was ascertained by dividing the total value of imports ($26,732,249,497) by the calculated duty collected ($2,016,421,359). The arithmetic average duty of non-rubber footwear in 1967 was 14.8%, 2.6% higher than the composite average of all U.S. imports.

THE INDUSTRY'S RECORD LEVEL OF PROSPERITY IS UNAFFECTED BY IMPORTS

Newspapers and trade publications of the domestic manufacturers' footwear industry state that, overall, the industry is prosperous. Steady gains, increased sales and net earnings, and increased dividends to shareholders have been the rule.

The net worth of the entire shoe and leather industry in this country may be close to two billion dollars based on the market value of its publicly held stock.

"This can be seen by comparing the 1967 lows with the year-end stock prices. It can be seen much more clearly when the price increases are translated into increases in total market valuation by multiplying the price of the stock by the number of common shares outstanding. On this basis, *the stocks of all shoe and leather companies whose shares are listed on the New York Stock Exchange rose last year by about* $792 million *or more than 70%* to 1.9 billion dollars" (*Boot & Shoe Recorder*, May 1968, pp. 24–25).

Commenting on the magnitude of this increase, Richard Landy, Financial Editor of *Boot & Shoe Recorder* in the March 1968 issue stated, "(t)he most significant thing is that even after this large price appreciation, most industry stocks are conservatively valued." (p. 38)

Wall Street, the most sensitive of business barometers, favors the industry. *Barrons* and *Forbes* have recently reported favorably on Green Shoe Company, Shaer Shoe and the giants, Genesco & Interco. Shoe Corporation of America, Weyenberg and Morse are commonly recommended for "growth". Shoe companies have been sought by "conglomerates"—diversified holding companies.

A recent Federal Trade Commission report on "Rates of Return of Identical Companies in Selected Manufacturing Industries from 1957–1966", commenting on the industry's growth showed that twelve leading footwear manufacturers improved their return on invested capital from an average of 11.4% in 1965 to 13.1% in 1966, representing a gain of 15% in one year. Of the 37 selected industries compared, footwear was 17th. (*Boot & Shoe Recorder*, February 1968, p. 30).

Profits continue to grow. The trade paper, *Leather* and *Shoes*, March 30, 1968, states:

"*While overall profits of leading corporations in 1967 fell slightly below 1966, shoe and leather industry managed to show increases of four percent after taxes.* Gain is based on total profits of 20 leading industry corporations which reported after tax profits of $85.4 millions compared with $81.9 million in year previous." (p. 4)

Increased profits mean increased dividends for shareholders.

"Listed shoe and leather companies rewarded their shareholders handsomely in 1967. A study of cash dividend payments by listed common stocks on the New

York Stock Exchange shows that 12 *leather and shoe companies increased their cash payout to shareholders by 13.6% to $49.8 million. This was the second largest percentage gain for the year among the 20 industrial groups studied* * * * The average gain for the 20 groups was only 4.1%." (*Boot & Shoe Recorder*, April, 1968, p. 38)

The individual annual reports of seven leading shoe manufacturers (submitted herewith as Collective Exhibit A) highlight this picture of general *prosperity.*[1]

Four of the corporations reported record high earnings and profits. Brown's report states that the operations of the company were the most successful in its 89-year history. Its sales of more than $326 million reflected an increase of 7.3% over the previous all time high sales of 1966 and its earnings were 9.2% above the record set in the preceding year. The report commented, as did most others, that this record was achieved nothwithstanding marked changes in styles that presented economic handicaps.

Interco is a corporation of diversified holdings with 64% of its business activities devoted to the manufacture and sale of footwear. Its Florsheim Shoe Company subsidiary achieved "the highest sales and profits in its history" of 75 years. Its selling company, International Retail Shoe Company, reached new highs in both sales and earnings in 1967 *despite the pressure of higher costs.* Sales advanced and inventories were reduced. The reduction of retail units from 463 to 450 reflected a policy to close its "smaller-margin units" and open fewer, larger, well-located stores that would do double the volume of the smaller stores.

Melville Shoe Corp. is best identified by its subsidiary Thom McAn, nationwide retailer of men's shoes and its counterpart in women's footwear, Miles Shoes. This combination of 1366 retail outlets reported that net sales of $258,752,353 for 1967 reflected a 10.4% increase over the excellent preceding year and accounted for $5.08 earnings per share compared with $3.88 in 1966. It has subsidiaries in Canada and Spain.

Genesco, a diversified company, manufactures and markets clothing and footwear and the components of which they are made. Footwear comprises 36% of its total business volume. Its story of success in footwear is stated as follows:

"Emphasis on more mechanization and lower cost manufacturing techniques plus upgrading of quality standards helped Genesco Footwear to reach its largest share of the footwear industry, both in terms of dollars and sales and in total pairs manufactured during 1967."

"*Footwear News,*" May 16, 1968, reported record earnings and sales for Genesco in the third fiscal quarter and for the nine month period ending April 30, 1968. Profits were up 7.4% in the quarter and 6.6% in the nine months, while sales gained 4.1% and 4.8% respectively. The third quarter net profit was $4,783,000 and sales rose nearly $9,000,000 from the previous quarter, totalling $705,115,000 for nine months. Company President, Ben Willingham, predicted results for the fiscal year ending July 31, 1968 will again set new records in both sales and earnings.

While Endicott Johnson Corporation reported a decline of 3% in its net sales, compared with the preceding year, and a corresponding decline in net earnings, it attributed this in large measure to the closing of an unprofitable tannery. It reports however, that "in 1967 the company's overall financial position showed significant improvement * * *" and that it anticipates "improvement in both sales and earnings in 1968." The explanation that follows justifies both statements. The company had been restructured, short-term loans paid in full, interest expenses reduced and substantial investments made in capital equipment. Labor shortages, seasonal setbacks and high operating costs were blamed for the decline in sales and profits.

United States Shoe Corporation reported an increase in net sales but a slight decrease in earnings. The latter was attributed to a "cost-price squeeze that has affected many other companies this past year." The earnings, nevertheless were the second highest in the company's history. The company's 28 plants have capacity for producing 90,000 pairs of shoes per day and additional capacity is not

[1] Exhibit covers annual reports of the following manufacturers:
Brown Shoe Company, St. Louis, Missouri.
Genesco Inc., Nashville, Tennessee.
Endicott Johnson Corporation, Endicott, New York.
U.S. Shoe Corporation, Cincinnati, Ohio.
Wolverine World Wide Inc., Rockford, Michigan.
Interco Incorporated, St. Louis, Missouri.
Melville Shoe Corporation, New York City.

only planned but in the process of construction to meet anticipated demands within the next three years. This company reports that a modest program of imports from Spain and Italy met with excellent dealer acceptance.

Wolverine World Wide, smallest of the companies discussed here, showed the sharpest loss in net sales, declining from $55,813,275 in 1966 to $54,838,535 in 1967. This was attributed principally to a decline in sale of a fashion item—the *Hush Puppy* which was developed in 1965 and expanded rapidly. The company's President stated that they did not expect a repetition of such growth rates but that they did expect steady growth "at a healthy sustainable rate."

Wall Street preaches that in corporate life, as in family life, "downs" must be expected with "ups." Corporate reports prove the preaching. They prove too, over a period of years, that a decline in business for one or more years does not necessarily indicate lack of prosperity or decline in healthy growth. Submitted herewith as Exhibit C is a chart of reasons for a slight decline in 1967 as stated in the three corporate reports referred to. Most of these reasons are normal to corporate life. Labor shortages, excessive overtime payments, delays in opening new plants are expected by businessmen. Wolverine's reference to an expected setback in growth because of the devaluation of the British pound is noteworthy because it is related to the company's international growth and the worldwide granting of licenses for the sale of its popular *Hush Puppies*. This is evidence of a United States corporation depending substantially on international trade for its growth and development.

These reports are more significant for what they do not state. They explain losses in sales and earnings with no mention of import competition. The inference is fair that the losses resulted from the reasons given and from none other. The reports are individually and collectively optimistic and quite obviously unconcerned with import competition.

Such prosperity is found, as well, among smaller companies. Weyenberg Shoe Company, sixtieth nationally in pairage in 1966, nearly doubled sales for the quarter ending March 31 and net earnings increased 13.6 per cent. Profits did not rise in proportion to the 95.5 per cent jump in sales because the company is still in the process of reconstructing a subsidiary manufacturer. ("*Footwear News*," May 9, 1968.)

An Atlanta firm, Butler Shoe Corp., reports sales from January through April increased 17 per cent over last year and improved earnings by 40 per cent. Net profits of Compo Industries, Inc. tripled in the first quarter over last year while sales moved up 26.3 per cent and earnings moved from 6¢ to 17¢ per share. Sales increased $790,000 over this same period in 1967. ("*Footwear News*," April 25, 1968.)

William Iselin & Co., one of the nation's leading factoring firms, stated to *Leather and Shoes*. March 30, 1968, p. 4, that while smaller shoe firms may not show the profits of the larger competitors, their rate of return can be more impressive. The Iselin client group of six small shoe manufacturers had an average return on stockholders' investment of 14.5 per cent in 1965 compared with the average of 11.4 per cent for the top dozen firms in the industry. Improved shoe business in 1966 brought the return for the 12 largest companies to 13.1 per cent. The rate of return of the Iselin group skyrocketed to 20.9 per cent. The big firms improved their rate of return by 15 per cent, the six smaller firms by 44 per cent.

An article in the February, 1968 *Recorder*, p. 21, predicts conglomerates will move into the shoe industry at both the manufacturing and retail levels in 1968.

"With the stock market at a relatively high level, these diversified companies are turning to fields where bettter values are available at lower price-earnings multiples. * * * The purchase of Eastland Shoe by Standard Prudential United is a clear indication of this. * * * In effect, *they buy management and they know that most shoe firms are run by capable, experienced personnel.*

"This alone assures that more conglomerates will be bargain hunting in the under-capitalized shoe industry."

Again in the April, 1968 *Boot & Shoe Recorder:*

"*This year should be another big one on the merger front.* There will be 3,200 to 3,300 acquisitions of all kinds in U.S. business and industry, compared to last year's 2,975 recorded mergers, notes W. T. Grimm and Co., a Chicago-based financial consultant firm. Grimm predicts that *conglomerates will account for a greater percentage of mergers. That should interest the shoe indsutry since multi-division organizations have been showing keen interest in shoe manufacturers.* Those which bought shoe properties for the first time in 1967 note that the industry was profitable and that many companies could be acquired reasonably." (p. 38)

In a year-end message on the state of the footwear industry in America, Merrill A. Watson, President of the National Footwear Manufacturers Association, noting the resurgence of the industry's manufacturers in late 1967, said that the year marked "the bottom of the cycle in shoe output and the beginning of an upward climb." (*Boot & Shoe Recorder*, February 1968, p. 91.) Press reports agree. In May, retail sales were from 5 percent to 31 percent ahead of May, 1967 in all categories. Figures for the March–April period reported in "*Footwear News*," May 2, 1968 indicated that retail sales boomed. Examples: *Atlanta:* Business shows over-all gains; *San Francisco:* Most run generally higher; *New York:* Strong period for most stores; *Cleveland:* 10–15 percent increase is registered; *St. Louis:* Gains made in all categories; *Pittsburgh:* Increase is noted in women's lines. A few cities reported sales were off, but industry spokesmen blamed fires, riots and the fear of riots. In Milwaukee, men's dress shoe manufacturers report that they are riding a wave of prosperity of incredible duration.

Another article in "*Footwear News*" of the same date, reports that one major manufacturing outfit says:

"not one week has gone by since then (late May or early June, 1967) in which it has failed to top figures of the year before. This means this year's regular business was better than Eastern business a year ago. *It is noted that these are pairage figures, not dollars.* The sales growth in terms of stores has come from existing accounts rather than from new accounts. * * * As a matter of fact, *factories here are not looking actively for new accounts at the present time. * * * With shoes as hard to get out of the factory as they are under present labor conditions and with the high volume of business it would be more surprising if makers were recruiting new accounts.* Most producers now are (neither) turning down new accounts nor wooing them, but they are taking a little closer look at the prospect's credit rating and general quality picture." (Emphasis supplied.)

The April 25, 1968 "*Footwear News*" stated that central Pennsylvania manufacturers are gearing for a fast paced summer. On the strength of a strong Easter season, practically all producers in the area are expecting the brisk demand to continue. All plants are operting at capacity level though still battling a critical labor shortage. One executive stated: "*If we could get more people, we could make more shoes.*" (Emphasis supplied.) Another executive said this Easter's business was ahead of last year's and "advance orders are tremendous." In the May 30, 1968 "*Footwear News*" a Bureau of Census report announced that March production of nonrubber footwear topped 1967 as well as month earlier levels.

IMPORTS FROM EUROPE CONTRIBUTE TO THE SUCCESS OF THE DOMESTIC INDUSTRY

A Bureau of Census report (April, 1968) with respect to non-rubber footwear stated that in 1967 there were 603,338,000 pairs of shoes produced domestically, and 129,134,000 pairs imported—a total of 732,472,000. Imports represent 17.6% of the total of which approximately 60,000,000 pairs or 45% came from Europe. Notwithstanding, 1967 was a banner year for domestic concerns.

Imported shoes contributed to the domestic success. Americans of all ages are more style conscious than ever before and the shoe has become an integrated part of the costume.

Today's fashion trends are influenced by European styles, principally from the high fashion salons of Paris, Rome and London. Imported and "imported looking" shoes are prestige items. Consequently, European imports are initiating new lines for American manufacturers. High style, expensive imports are copies or modified and mass produced to sell at popular prices. Increased production and sales for the domestic industry result. Consumers, unable or unwilling to pay the higher price of the originals are attracted to moderately priced domestic reproductions that have the "imported look."

An example of the above is the high, fitted women's boots introduced several years ago from France, England, Switzerland and West Germany. Handmade of the finest quality leathers and materials these boots retailed from $40.00 to $100.00. American molded reproduction in plastics and vinyls, selling at less than half the price of the imports, met with instant success. At first a fashion whim, the item soon became a "staple." Imports created the demand.

Another example is Bally Shoes of Switzerland. This multi-style line of men's and women's shoes retail in this country from $29 to $45. Domestic reproductions are in great demand, priced from $10.95 to $14.95.

A variation of the above is practiced by the Rose-Bro Shoe Co., Inc., of Boston. This firm offers both "in stock" and "make-up" imported footwear for the volume trade. Shoes are made of imported materials, using American lasts and patterns combined with European styling. Johnson, Stephens & Shinkle Shoe of St. Louis features a line of Spanish made shoes manufactured with American lasts, gradings and fittings. Other domestic firms are purchasing rights to manufacture shoes of European style, construction and design and to sell them under the foreign company's label in the United States.

A Miami retailer complained that he cannot obtain imported sandals (playshoes) in various widths:

"He can sell domestic sandals for $4.95 but imported styles sell for about $6.50. The imports are far ahead from a fashion standpoint * * *. The trouble with imports is that you must wait for the right foot to come along." (*"Footwear News,"* May 2, 1968.)

Most imported sandals come in a single width that is too wide for the average American foot. U.S. manufacturers, by providing reproductions in a wide range of sizes and widths, again fulfill demands created by the more fashionable European imports.

Shoe wholesalers and small retailers are just as much a segment of the domestic industry as manufacturers. A 1966 Tariff Commission investigation (No. AA 1921–48) of workshoes imported from Europe revealed that the practice of American manufacturers' selling directly to chain stores and large retailers was adversely affecting wholesalers whose traditional function it was to supply smaller retail units. Smaller stores could not carry the large stock and full range of sizes and, therefore, could not compete with chain stores and volume retailers. Testimony disclosed that wholesalers are happy to have the supply of the foreign shoes. Small retailers testified that imports helped keep them in business when domestic manufacturers were bypassing them, selling to large corporate competitors. The Commission found no injury or likelihood of injury to the domestic footwear industry. It was affirmatively established that the imports were marketed at price parity with comparable domestic shoes.

ROLE OF SHOE IMPORTS IN THE AMERICAN ECONOMY

Imports of footwear have been playing an essential role and constitute almost a textbook example of the importance of liberal trade policies in a dynamic economy. Despite much sophisticated machinery, the manufacture of shoes has always involved a lot of handwork. The general labor shortage has been felt particularly in the shoe industry as style factors have increased the demand for shoes. The natural consequence has been an increase in imports, in which many of the established manufacturers have joined by using imports to fill out portions of their lines. This has had three extremely desirable consequences for the American economy: it has freed labor for other industries; it has made products available to the public at prices which they can afford; and it has helped to restrain inflationary trends with respect to a vital consumer product. Without imports, the result would have been higher prices for shoes, perhaps higher wages to attract more labor, fewer shoes purchased, and greater inflation.

LABOR SHORTAGE

The labor shortage in the footwear industry is well documented by the trade press. Attached hereto are a few of the articles that have appeared in the *"Footwear News,"* the *Boot and Shoe Recorder*, and the *"Wall Street Journal."* The following is a brief summary:

On March 22, 1966, the *"Wall Street Journal"* reported:

"Endicott Johnson Corp. is considering consolidating some of its shoe-manufacturing plans due to acute labor shortage. * * * The President told the annual meeting * * * 'We could use more than 300 people right now, and the truth of the matter is that we can't get them.' "

On May 5, 1966, the Chairman of United States Shoe Corp. said:

"We can sell more shoes than we can make * * *. Labor is the most vulnerable facet of the shoe business. It is a traditionally low-paid industry anyway, and because of heavy industrial growth in some established cities it is difficult to improve on the situation. You have to go to new communities to get the workers you need. At our existing plants we are just not getting them."

On August 18, 1966, the "*Footwear News*" did a roundup study of employment and headlined its account: "Lack of Skilled Labor Still Plagues Plants." Stores datelined New York, St. Louis, and Boston bear out this headline.

On September 29, 1966, the "*Footwear News*" did another such houndup with dateline stories from Milwaukee, St. Louis, and Boston, emphasizing:

"The shortage of shoe manufacturing labor has brought with it a whole range of unexpected and unforseen higher costs to producers—costs that are barely visible and that can be calculated only with difficulty. They are adding substantially to manufacturers' costs as they figure prices on their spring lines."

On September 29, 1966, the "*Footwear News*" had a story from Puerto Rico describing the training of footwear workers there. It was explained that a major reason was that:

"* * * in the Northeast United States, the established shoe industry is experiencing a shortage of trained workers."

The same subject was treated by the "*Wall Street Journal*" on December 27, 1966, in a long article headlined: "Puerto Rico's Labor Surplus Keeps Luring Manufacturers from Worker-Short U.S." The article cites cases of firms that are opening plants in Puerto Rico because they simply cannot find workers in the continental United States.

In its issue of January 1967, the *Boot and Shoe Recorder* devoted more than seven pages to a story entitled: "Labor Shortage Rocks Shoe Industry," saying:

"The shortage of labor is the greatest concern of all facets of the industry from manufacturing plants to meterial and supply firms to salesmen on the road to retail shoe stories and departments. The skill factor has been watered down while the cost factor has spiraled up and these two forces are pulling footwear apart at the seams."

Many examples are cited in this article of workers who desert for other industries or refuse to go into shoe factories.

On June 1, 1967, another account in the "*Footwear News*" was headlined: "Acute Labor Pinch Harasses Central Pa. Manufacturers." The story relates that it is impossible for shoe manufacturers, even the few in the area that have unionized plants, to compete in wages and fringe benefits with their "stronger rivals such as electronic, steel, aluminum, and machinery makers." Also, young persons, just out of high school and college, are not rushing into factory work as they once did. Even shoe factory jobs that eventually could lead to top executive spots in the various companies are not bringing many applicants.

No doubt there are particular producers bedeviled by labor shortage who feel that the existence of imports makes it harder to raise prices and wages. Even without imports, consumer resistance would limit the ability to raise prices. And when the interests of the American economy on the whole are considered, it is obvious that the imports play a constructive and necessary role. Without them the whole American people would be much the poorer.

ROLE OF IMPORTS FROM JAPAN IN THE MARKETPLACE

Approximately one-half, according to the Department of Commerce figures, of footwear imports consist of products with vinyl uppers that come mostly from Japan. These are very largely in the women's and misses category and are mostly casual street shoes of various types, some with toes and backs, some sandals, and a wide variety of styles. Most of these have vinyl or rubber soles. The women's and misses vinyl upper shoes in 1968, according to official U.S. statistics, had an average f.o.b. value of 60 cents. Since this is an average, the actual prices varied from around 35 cents to around 70 cents. This means that practically all such shoes sell at retail in the range from $1 to $2.

There is no serviceable comparable footwear available from American production in this price range. These shoes have performed an invaluable service to the American economy in supplying essential footwear to people who cannot afford more, and unfortunately, there are still many such people. To a large extent these are sales that would never have taken place if the imports were not in the market. People can get along by putting cardboard in an old pair of shoes if they have to. Obviously, these are not high quality products, but they are good, serviceable, attractive products which have come into existence because of the skill and ingenuity of the Japanese producers in using vinyl as a product for shoe uppers. This is a by-product of the fact that the Japanese have for a long time used vinyl for products in the domestic market, and they have developed a vinyl shoe technology which the U.S. producers have not seen fit to exploit. The American industry is built on the leather shoe, but there are not many countries of the world that can afford leather shoes as can the affluent sectors of the American economy. The underdeveloped portion of the American economy needs the same type of products that are made for the less affluent nations of the world.

Statistically, an impressive picture of a tide of imports can be painted by stressing the quantity of vinyl shoes, but when their role in the market is examined they have virtually to be excluded from a serious examination of areas of competition between imported and domestic products. There are other products often included in statistical aggregates that are altogether non-competitive—for instance, sponge rubber sandals (zories), imports of which amounted to 27 million pairs in 1967. They compete with the U.S. barefoot industry.

EVILS OF QUOTAS

It is hard to believe that the sponsors of quota legislation have considered deeply their significance for the conduct of the trade of the United States. Such controls are either worldwide, which means an unseemingly scramble to get under the line; or they are by countries, which gives to some authority the unenviable task of determining not only a fair historical basis, or what changing conditions call for recognition. The normal working of economic forces is abandoned. The normal changes in trade patterns resulting from economic development and the varying economic trends within all the countries concerned no longer determine trade patterns, and there is substituted a fallible human judgment exercised through ponderous bureaucratic machinery. On both the import side and the export side, someone is going to have to decide to whom the country's quotas are allocated, or else there will be an unseemly and uneconomic scramble to bring in goods before they are wanted in the market. There is no possibility of complete fairness in such allocation. If goods are brought in to meet exigencies of the quota, market forces are again ignored, unnecessary charges for warehousing are incurred, and ability to style to the market is impaired.

This whole process is particularly difficult and odious when consumer items are involved, and even more so when apparel is involved, which is highly subject to whims of fashion. It is impossible for a store buyer or the importer to plan intelligently, and everyone concerned suffers from inability to use imports flexibly as a market resource.

We cannot state too strongly the concern of footwear importers over the prospect of having to conduct their business under controls of this character. Consider the problem of a buyer who goes to the Far East, as is frequently done, and visits four different sources, i.e., Japan, Korea. Taiwan, Hong Kong, or to Europe, and visits the United Kingdom, Italy and Spain. Buying is ordinarily done for delivery in the United States four to eight months later. The buyer has already to juggle a myriad of factors: price, style, quality, ability of factory to schedule and deliver. The buyer who had also to take into account the availability of a quota to his producer or to himself would go insane. On the other hand, when the results were in, a few companies who had enjoyed strong positions in the past might be preserved from the rigors of competition and profit unduly.

Consider further, with respect to these products of light industry, that there is a trend away from the older sources, whose costs are increasing as the move to a higher technological level, to other countries with less highly developed economies. In Europe, from Italy to Spain; in the Far East, from Japan to Korea and Taiwan—countries which the United States as a matter of policy is happy to see achieving viable economies. The U.S. would like to see many other under-developed nations also achieve enough exports to permit accelerated economic development—in the Mediterranean, Asia and South America. A historical allocation of quotas would freeze out these nations, while bureaucratic decisions would do a far worse job than natural market forces.

The American people have firmly rejected controls over the U.S. economy except when in time of war they were absolutely unavoidable. We cannot believe that in a moment of blind protectionism the Congress of the United States will depart from traditional free enterprise principles and place such shackles on the import trade.

Mr. BURKE. Does your associate wish to testify? Would you send those shoes up here? As I understand, these work shoes wholesale at the same price.

Mr. DONOHUE. I have prices on them, Mr. Chairman, and one represents the price at which it is sold by the importer and the other is represented to me as the price at which the manufacturer sells to the distributor or to the retailer as the case may be. They are marked.

Mr. BYRNES. In both cases these are the wholesale prices.

Mr. DONOHUE. No, that is the first price, either the importer's or the manufacturer's price.

Mr. BURKE. Who makes this shoe?

Mr. DONOHUE. That is the imported shoe. That comes from Czechoslovakia.

Mr. BURKE. Who makes the domestic shoe?

Mr. DONOHUE. I don't know. It was given to me as a domestic shoe. That is the garage oxford with a sole of neophrene or some other product that resists petroleum products.

Mr. BURKE. You seem to indicate that some of these large shoe people are very happy over the profits that they are enjoying. Do any of these companies that you mentioned have shoe plants located overseas?

Mr. DONOHUE. I don't believe so. I believe Brown has a plant in Canada. I don't know that it has any plant overseas.

Mr. BURKE. How about Wolverine? Have they moved overseas?

Mr. DONOHUE. Wolverine is the company that made the hush puppies famous. The hush puppy is that crepe sole. I understand, in fact I believe I read in their annual report that they have licensed foreign manufacturers to make their hush puppy shoe so that they have foreign interests.

Mr. BURKE. Some of these have retail outlets.

Mr. DONOHUE. Yes. For example, the Melville Shoe Co. is the owner of the Thom McAn chain and the Miles Co. that sells women's shoes.

Mr. BURKE. In their financial statement would that reflect the profits that they were making in their retail outlets from the imported shoes?

Mr. DONOHUE. They don't have that much detail, Mr. Chairman. They reflect their overall profit and, except in the instance that I referred to, the Miles operation, they do not indicate the extent to which they import, if at all.

Mr. BURKE. Did you mention Interco?

Mr. DONOHUE. Yes, sir.

Mr. BURKE. Are they importing shoes?

Mr. DONOHUE. I don't know. They may be. Interco is an integrated company.

Mr. BURKE. Is Florsheim a subsidiary of theirs?

Mr. DONOHUE. Yes, sir; it is.

Mr. BURKE. Hasn't Florsheim moved their plants overseas?

Mr. DONOHUE. I don't know that Florsheim have moved their plants overseas.

Mr. BURKE. Your statement is somewhat clouded because you have not any real breakdown here. They are happy and enjoying profits but those profits might be mostly from their imported shoes that they retail and from some of their factory plants that they might have overseas. You have everything thrown into one package here and there is no breakdown as to their profits on their domestic factories and on their overseas factories and also on the profits that they enjoy as a result of the imports that they sell in their retail outlets.

You realize that what we are discussing here is imports and the domestic industry and you just can't take and lump one company together that is participating in imports and also has a factory overseas and has a domestic factory.

Mr. DONOHUE. While some of these companies may have some foreign interests, the extent of these interests I cannot accurately describe. It is nevertheless true, Mr. Chairman, that these are the big domestic manufacturers.

Mr. BURKE. What about the family-owned factories that Senator Muskie discussed today, located up in these small towns where they might be the main industry of the small town of 2,000 or 3,000 population and they employ 250 or 300 people? What do you have to say about them?

Mr. DONOHUE. I don't have anything to say about them. I think I am correctly quoting one of the trade papers when I state that about 53 percent of all the shoes in the United States are produced by 80 companies.

Now, there are some hundreds of these little shoe companies and so as in other industries a handful of big companies produce the volume of domestic material. So it is here. The smaller companies, larger in number, produce less volume. But I suspect, and in the inquiry before the Tariff Commission it was developed that many of the financial problems of those smaller companies are chargeable not so much to the competition from imports as to the competition from these larger shoe companies.

Mr. BURKE. In other words, you feel it would be helpful to them and certainly not injurious to them, according to your testimony, that in 1955 imports of footwear represented 1.3 percent of domestic production and in 1967 it went up to 21.4 percent of domestic production and that this tremendous increase has no impact whatsoever on these small firms throughout the country? Is that what you are saying?

Mr. DONOHUE. No, sir.

Mr. BURKE. It helps them out by having this tremendous increase.

Mr. DONOHUE. I did not mean to give the impression, Mr. Chairman, and I believe I did not make the statement that any shoe manufacturer, large or small, was immune to the impact of competition. No seller of merchandise ignores competition. The automobile industry of the United States is developing and progressing year after year. It is not unaware of import competition, but in the overall it cannot be said that the import competition is seriously injuring that industry.

Mr. BURKE. What about Studebaker?

Mr. DONOHUE. I think it would be unrealistic to attribute the decline in Studebaker fortunes to import competition. I would say quite certainly that Studebaker suffered from domestic competition.

Mr. BURKE. Not from the foreign imports of small cars.

Mr. DONOHUE. I don't think that Studebaker suffered primarily from the competitive effect of small cars.

Mr. BURKE. I don't want to fool around with semantics. I am just asking, did the tremendous import of small cars affect the Studebaker Co., in your opinion?

Mr. DONOHUE. I would say that probably it did affect the Studebaker Co.

Mr. BURKE. Probably.

Mr. DONOHUE. And probably it affected General Motors, but I would say that the combined effect of General Motors, Chrysler, and Ford was more injurious to Studebaker than import competition.

Mr. BURKE. Your argument seems to indicate that this increase in imports has very little effect upon the domestic footwear industry and, when imports went up to 21 percent as they did in 1967, and it looks like they may go from 30 to 35 percent this year, how high would you say that percentage of import should reach before you think it might affect the domestic industry?

Mr. DONOHUE. I would say that imports are affecting the footwear industry now. I don't know that anyone can fix a level and say, "This is as high as it should go and beyond this it is critical and up to that point it is not critical." I think no such level can be arbitrarily fixed. I would say that the shoe industry is feeling the effect of import competition now. The shoe industry is nevertheless a prosperous industry, on the statement of its own people.

Mr. BURKE. Mr. Battin.

Mr. BATTIN. One of the names that you mentioned was Genesco. I don't think you really meant to leave the impression with the committee that Genesco was in the shoe business, that that is where they are making their profit. They happen to be one of the companies which has led the way in segregating all the way up, on down. They were trying to buy Garfinkel's in the District of Columbia, earlier this year. They have bought other department stores throughout the United States, and unless you can give me and the committee what percentage of the shoe business—and that is what we are talking about—they are involved in and how that affects their profit, why, I don't think the testimony would be in itself very fair.

Mr. DONOHUE. My brief gives that percentage. I have here the annual statement which of course gives the breakdown, and I should have before now asked the committee to receive these annual statements and other exhibits for the record.

Mr. BATTIN. I would like to ask just one other question.

Could you recite to me an instance where any company, whether it be in the oil industry or textiles or shoes, that is out bidding for capital and investment in their company is going to give out to the press a rather weak picture of their prospects or isn't it pretty well accepted even in trade journals that people who are in an expansion program are going to use the best methods they know how, including public relations, to make their picture a good one. Isn't that pretty well accepted as a business practice?

Mr. DONOHUE. It is pretty well accepted, Congressman, that annual statements speak optimistically. I have quoted in our brief specific figures of increases in sales and earnings, and I think that is valid substantial testimony.

Mr. BATTIN. And this is broken down between their shoe operation, their imports, their capital investment in foreign countries, the whole bit?

Mr. DONOHUE. No.

Mr. BATTIN. Oh, it isn't?

Mr. DONOHUE. They don't. Annual statements don't break things down to that degree. Whatever is in the annual statement, of course, is there.

Mr. BATTIN. Yes, but it wouldn't go to that extent so that we could see what effect on their profit statement the shoe industry has versus the drygoods lines that they have.

Mr. DONOHUE. I should say, sir, and I am sure you are aware that the Tariff Commission is conducting concurrently an investigation with respect to the effect of imports of nonrubber footwear. The Tariff Commission staff is able to get that information better than any private practitioner. We hope to participate in that investigation. I am sure your committee will be interested in awaiting its results. The hearing is set for September 9, and by that time I think that information will be available.

Mr. Chairman, may I leave this group of exhibits which I have identified in my memorandum consisting of these annual statements we have referred to and other charts taken from it?

Mr. BURKE. I note here that most of what you call exhibits are merely just short little news clips from different trade papers.

Have you filed the entire financial statement of any of these people?

Mr. DONOHUE. Here they are. I want to file them.

Mr. BURKE. I mean what would they prove? Will they prove anything?

Mr. DONOHUE. I think they will.

Mr. BURKE. Do you get a breakdown of the domestic shoes and foreign shoes that are imported and the profits they made on foreign imports, their retail outlets of foreign-made shoes, or is it just an overall financial statement of the firm?

Mr. DONOHUE. You are not going to get——

Mr. BURKE. It would be very costly to put all of this into the record, and unless it has some bearing, in other words, direct bearing on the testimony that you are giving including a breakdown of the imports and the profits of the company made from imports or made from retail outlets of foreign-made shoes, unless there is a separation of all these facts, it will just confuse the record.

Mr. DONOHUE. No, I don't want to do that.

Mr. BURKE. If you have a breakdown of the profits that separate the imports from the domestic production and the profits made from their domestic production and from their imports and the profits made from their retail outlets, I could see some purpose; but otherwise it would more than likely cost the Government thousands of dollars to print.

Mr. DONOHUE. I thought I was just leaving these for the convenience of the committee.

Mr. BURKE. Well, would you like to leave it for the staff, for the staff to look it over?

Mr. DONOHUE. Yes, I didn't mean to have it all reprinted. I join with the Chair in very keen concern for the taxpayer's money. I am one of those creatures. I leave them for the convenience of the staff.

Mr. BURKE. The staff will look it over.

Thank you very much.

Mr. DONOHUE. Now, shall I remove those foreign shoes?

Mr. BURKE. Yes.
Our next witness is Robert P. Fuller.
Will you identify yourself for the committee, please?

STATEMENT OF ROBERT P. FULLER, CHAIRMAN, GOVERNMENT AFFAIRS COMMITTEE, NATIONAL SHOEBOARD CONFERENCE, INC., ACCOMPANIED BY JOHN ROGERS

Mr. FULLER. Yes, Mr. Chairman, I should identify myself as an optimist, because my opening remark says "Good morning, Mr. Chairman."

I would like to make an attempt to clear up what seemed to be a couple of misunderstandings based on the immediately past presentation, and that is, that we are very familiar—let me say that my name is Robert P. Fuller, and I am president of the Colonial Board Co., Manchester, Conn.

I am accompanied by Mr. John Rogers, of the Rogers Fiber Co., in Maine. We are very deeply interested in the shoe industry, and I would just like to make this observation, that I think other than those few companies named by my predecessor, Mr. Donohue, that we look upon the shoe industry as being one of the lowest returns on net invested capital in all American industry.

We are not very far above grocery store chains. He didn't mention Endicott-Johnson. I think all of you know the distressing circumstances of Endicott-Johnson, which I would not charge as being solely caused by imports, but certainly could not be entirely disassociated. Those companies, I think, operate somewhere in the range of 6,000 to 7,000 retail store outlets.

They are driven to import shoes for sale. We should not confuse shoe manufacturing with shoe merchandising.

With no further remarks, I will proceed with my prepared statement, and, gentlemen, I hope that its brevity you will consider a virtue. I am not going to read verbatim from the prepared statement which you have, and which I would like to have filed in its entirety.

I am appearing before this committee in my capacity as chairman of the Government Affairs Committee of the National Shoeboard Conference, Inc., in Boston, Mass., the members of which association produce a product used primarily in the manufacture of shoes.

Shoeboard is manufactured from either reclaimed cellulose or leather fiber, and is made by a process known as the wet machine process.

The shoeboard industry is basically small. Its producers are what we might call small business. Our association has a membership of seven companies, with an annual value of production of approximately $9 million.

My statement on behalf of the membership of the National Shoeboard Conference is directed to those subjects relating to new legislative proposals on foreign trade policy, outlined in the statement by your committee dated May 9, 1968.

I will direct my attention this afternoon to a short summary of the statement filed by Mr. Martin. I have already asked that that entire statement be made a matter of the record.

With respect to extending the President's authority to negotiate future trade agreements, we recommend that such authority be limited to compensatory tariff concessions in those cases where the United States withdraws previous tariff concessions, and to the reciprocal elimination of tariffs, including nontariff charges on specific products.

With respect to the latter, our membership is willing to agree to the elimination of tariffs on shoeboard, if other countries consuming and producing shoeboard are willing to eliminate tariffs and other charges on imports of shoeboard into their markets.

We also recommend two additional amendments to the Trade Expansion Act that would prohibit the President from negotiating any future trade agreements unless other countries eliminate their nontariff charges as a condition to future agreements, and would forbid any future trade agreements on any commodity or commodities in which there would be a disparity between the United States and foreign tariffs in the final agreement rate.

In our opinion, the substance and administration of the Antidumping Act are inadequate to protect domestic industry from the unfair trade practice of selling imports in this market below the fair market value in the country of origin.

We are sure that imported shoeboard is sold in our market at dumping prices, when foreign producers have some excess production, or want to expand their total sales.

Collecting the necessary information is difficult, time consuming and expensive. Often times, by the time we have the information, the dumping has ceased.

Even though the dumping may not be for a protracted period of time, such unfair selling practice has an adverse effect on our marketing structure, and disrupts our production.

Our position is that selling imported goods in the United States market below the fair market price in the country of origin is an unfair trade practice. When found to exist, punitive action should be taken against the responsible parties.

We recommend that the existing laws are modified to this end.

We are not in favor of legislation establishing across-the-board quotas on imports, nor do we favor direct Government subsidies for exports. It seems to us that this is the kind of trade policy that should be eliminated.

If our Government is unable in due course to persuade those countries with which we have substantial trade in exports to eliminate their nontariff charges on imports from the United States, we believe that a border tax, comparable to the foreign nontariff charges, would be a justifiable action. A border tax for the purpose, for this purpose, could be reduced or eliminated, in accordance with the action of other countries in reducing or eliminating their nontariff taxes.

So far as the involvement of our products is concerned, members of our association are of the opinion that the trade agreements of 1967 have serious defects. First, the 50-percent reduction in U.S. tariffs is of very much more value to foreign producers than the tariff concessions granted on shoeboard by other participating countries.

In these agreements, the United States committed to reduce their tariffs by 50 percent during the period 1968 through 1972. Canada is the only country to make a commitment which, after a cereal reduction over a period of 5 years, will bring our respective duties to near parity.

All other countries that are parties to the agreement made concessions ranging from token amounts to reductions of 50 percent in their formal tariff rates on both types of shoeboard.

Meaning both cellulose and leather. As a result, a wide disparity still exists, will still exist when the final agreement rates go into effect in 1972.

In cases where the formal tariffs were reduced as much as 50 percent, the continuation of the nontariff charges of which you have heard so much in the testimony today, precludes any benefit to be derived from the tariff reduction. On page 6 of our brief, there is a table to permit easy comparison of these rates.

The shoeboard industry is small business, as I have stated. The stability and welfare of the industry is largely dependent upon the shoe industry, of which I also commented. They are our principal market. We are trying to diversify our products and develop new markets, but this is a slow, difficult, and expensive process, due to the nature of our productive facilities, and the specialized character of the products that we produce.

Our industry presently has import competition from Canada and Western Europe and areas, and anticipate a substantial increase as the lower tariff makes our market more attractive and our total inability to exert any competitive leverage because of the great tariff disparity.

Although continuous efforts are made to develop foreign markets, exports of shoeboard remain very small. We had hopes that the trade agreement program would improve our opportunities to sell our products in foreign markets, but with the exception of Canada and perhaps one or two other areas, the trade agreement program to date has little, if any, promise for expansion of exports.

The members of the National Shoeboard Conference are willing to support the elimination of tariffs, which must include the elimination of nontariff charges on shoeboard in the United States, and elsewhere.

We believe that in free market, we can compete on the basis of quality and performance of our products. We suggest that new legislation make provisions for such agreements, if it is possible to do so. It is just possible that bilateral or multilateral agreements to eliminate tariffs on specific products may be more leastly achieved than agreements affecting a large number of products.

Gentlemen, that completes my report. We appreciate the opportunity of having been able to present it verbally to you.

(Mr. Fuller's prepared statement follows:)

STATEMENT OF ROBERT P. FULLER, CHAIRMAN, GOVERNMENT AFFAIRS COMMITTEE, NATIONAL SHOEBOARD CONFERENCE, INC.

My name is Robert P. Fuller. I am President of the Colonial Board Company, Manchester, Connecticut. I am appearing before this Committee in my capacity as Chairman of the Government Affairs Committee, National Shoeboard Conference, Inc., Box 1495, Boston, Massachusetts. This Conference is a trade association, the members of which are manufacturers of shoeboard, a product used primarily in the manufacture of shoes. Shoeboard is manufactured from either reclaimed cellulose of leather fibres, and is made by the wet machine process.

The shoeboard industry is small. Producers of shoeboard are small businesses. Our Conference has a membership of seven members. The annual value of production is approximately $9,000,000.

My statement on behalf of the membership of the National Shoeboard Conference is directed to those subjects, relating to new legislative proposals on foreign trade policy, outlined in the statement by your Committee dated May 9, 1968. I will summarize my views and recommendations, and follow-up with a more detailed discussion of each subject:

(1) We recommend a limited extension of the President's authority to negotiate future trade agreements. We recommend additional amendments: (a) authorizing the President to negotiate the reciprocal elimination of tariffs on specific products, under certain conditions; and (b) prohibiting future agreements unless non-tariff charges on imports by foreign countries and disparate tariff rates are eliminated, as conditions of such agreements.

(2) We recommend changes in the Antidumping Act that would make this legislation an effective defense against the unfair trade practice of selling imported goods in the U.S. market below the fair market price in the country of origin.

(3) We are not in favor of across-the-board quotas on imports designed to preserve a specified percentage of the total domestic market for domestic producers. We recommend that the existing law be amended to provide effective action against excessive imports of specific products that endanger the existence and welfare of a domestic industry.

(4) We are not in favor of a direct subsidy to exports.

(5) We are in favor of a broader tax on imports only as an offset to the non-tariff charges imposed on U.S. exports by other countries.

(6) We recommend against any future trade agreements until or unless an equitable balance is achieved between the charges made on imports into the United States and the total burdens imposed by foreign countries on exports from the United States.

EXTENSION OF THE PRESIDENT'S TRADE AGREEMENT AUTHORITY, UNDER THE TRADE EXPANSION ACT

With respect to extending the President's authority to negotiate future trade agreements, we recommend that such authority be limited to: (a) "compensatory" tariff concessions in those cases where the United States withdraws previous tariff concessions; (b) and to the reciprocal elimination of tariffs, including non-tariff charges, on specific products. With respect to the latter, our membership is willing to agree to the elimination of our tariffs on shoeboard if other countries, consuming and producing shoeboard, are willing to eliminate tariffs and other charges on imports of shoeboard into their markets. We recommend that such agreements would require that all of the countries, including the United States, which together account for 85% of the total international trade in shoeboard (or any other commodity) must be parties to such an agreement. We also recommend two additional amendments to the Trade Expansion Act that would prohibit the President from negotiating any future trade agreements unless other countries eliminate their non-tariff charges as a condition to future agreements, and would forbid any future trade agreements on any commodity or commodities in which there would be a disparity between the U.S. and foreign tariffs in the final agreement rate. These two issues will be discussed later in this statement.

PROPOSALS RELATIVE TO ANTIDUMPING, COUNTERVAILING DUTIES, AND RELATED MATTERS

In our opinion, the substance and administration of the Antidumping Act are inadequate to protect domestic industry from the unfair trade practice of selling imports in this market below the fair market value in the country of origin. We are sure that imported shoeboard is sold in our market at dumping prices, when foreign producers have some excess production or want to expand their total sales. Collecting the necessary information about dumping is a time consuming and expensive process. By the time we are prepared to present a case, the dumping has ceased. Even though the dumping may not be for a protracted period of time, such unfair selling practice has an adverse effect on our price structure, and disrupts our production and marketing operations. We believe that effective action against dumping can be achieved only if punitive action can be taken against an exporter or importer for specific violations, whether the dumping is continuing or is done on a sporadic basis. We believe that the requirements of the present law that injury from dumping must be found to domestic industry, virtually grants a large degree of immunity to foreign producers and importers against punitive action. We are aware that the Administration claims to have reached an agreement with members of GATT that these countries will also require that findings of injury to domestic industry will be made as a condition to imposing penalties on dumping. We are doubtful that this agreement will have much effect on the administration of the antidumping laws in those countries. Our position is that selling imported goods in the U.S. market below the fair market price in the country of origin is an unfair trade practice. When found to exist, punitive action should be taken against responsible parties. We recommend that the existing law be modified to this end.

We are not in favor of legislation establishing across-the-board quotas on imports to provide a specified percentage of the total domestic market to domestic producers. If a quota system of this type were to be imposed on our imports, undoubtedly other countries would react with similar restrictions which would adversely affect all U.S. exports. It is obvious that some domestic industries are severely harmed by excessive imports. Our principal customers are the manufacturers of shoes. Large imports of shoes have adversely affected the output of shoes in this country, which has affected our sales to the shoe industry. The provisions of the Trade Expansion Act were designed to provide relief to domestic manufacturers suffering from excessive imports. We understand that all appeals for relief under the present law have been refused. We urge that the present law be amended to provide positive relief to industries which suffer serious dislocation from excessive imports. We believe this to be preferable to quotas imposed by legislative specifications.

While our industry has competitive problems with respect to prices in foreign markets, we do not favor direct government subsidies for exports. It seems to us that this is the kind of foreign trade policy that should be eliminated in international trade. A subsidy on the export of shoeboard might enable some of our producers to be more competitive in price in foreign markets, but we might be subject to antidumping laws in other countries. It appears to be an established fact that many, if not most, of the important exporting countries provide a subsidy to exports by remission of internal taxes and other devices. Such indirect financial aid to exports might be achieved in this country, but our impression is that such procedures are complicated and may be of doubtful value.

PROPOSALS ON TARIFF MATTERS GENERALLY

There have been a number of proposals, from both industry and government sources, for a border tax on imports. It is our feeling that a border tax on imports, designed to reduce the total imports to improve our balance of payments situation, will not achieve this purpose. If our government is unable, in due course, to persuade those countries with which we have substantial trade in exports, to eliminate their non-tariff charges on imports from the United States, we believe that a border tax, comparable to the foreign non-tariff charges, would be a justifiable action. A border tax for this purpose could be reduced, or eliminated, in accordance with the action of other countries in reducing, or eliminating, their non-tariff taxes.

RESULTS OF THE "KENNEDY ROUND" AGREEMENT

Our industry is pleased with one aspect and disappointed with all other aspects of the recent trade agreements, with respect to the involvement of our products. In these agreements, the United States is committed to reduce the tariffs (6.75% on cellulose types and 7.5% ad valorem on the leather fibre type) by fifty percent during the period 1968 through 1972. Canada is the only country to make a commitment which, after a serial reduction over a period of five years, will bring our respective duties to near parity. All other countries that are parties to the agreement made concessions ranging from token amounts to reductions of 50% in their formal tariff rates on both types of shoeboard, as a result a wide disparity will still exist when the final agreement rates go into effect in 1972. The addition of non-tariff charges, in those countries which maintain such border taxes, widens the disparities.

So far as the involvement of our products is concerned, members of our association are of the opinion that the trade agreements of 1967 have serious defects. First, the fifty percent reduction in U.S. tariffs is of very much more value to foreign producers than the tariff concessions granted on shoeboard by other participating countries. The tariff concessions granted by other countries were mostly on leather fibreboard, which currently is the less competitive product.

The second serious defect, and related to the foregoing, is the continued disparity in U.S. and other tariff rates which will be effective at the end of the five year period. For example, the final agreement tariff rate on cellulose board in the European Economic Community will be 12% ad valorem; the U.S. tariff will be 3.5% ad valorem; for the United Kingdom the agreement rate is 18%, over five times the U.S. agreement rate.

The third serious defect is the continuation of the non-tariff charges maintained by most foreign countries. In competitive markets these burdens on our exports are impossible to overcome. In fact, in those cases where the formal tariffs were reduced as much as fifty percent, the continuation of the non-tariff charges precludes any benefit to be derived from the tariff reduction. The following tabulation is a summary of the tariff concessions on shoeboard made by foreign countries and the United States. The tabulation indicates the final trade agreement tariff rates, and in the case of foreign countries, the total charges on imports:

SHOEBOARD TARIFF RATE ADJUSTMENTS MADE BY SELECTED FOREIGN COUNTRIES TRADE AGREEMENTS, 1967

Product and country	Base rate	Final trade agreement tariff rate percent ad valorem [1]	Total import charges [2]
Paper board:			
EEC (6 countries)	16.0	12.0	18-32.0
United Kingdom	20.0	18.0	18.0
Denmark	5.0	2.5	12.5
Sweden	5.0	2.5	13.6
Austria	18.0	14.0	27.0
Spain	28.0	(4)	45.0
Japan	15.0	7.5	7.5
Australia	(3)	---	---
Canada	20.0	5.0	(5)
Composition leather:			
EEC (6 countries)	10.0	5.0	11-25.0
United Kingdom	10.0	5.0	5.0
Denmark	10.0	5.0	17.5
Sweden	7.0	6.0	17.1
Norway	20.0	16.0	29.6
Austria	20.0	10.0	21.8
Spain	17.5	(4)	25.5
Japan	15.0	7.5	7.5
Australia	22.5	(4)	22.5

[1] Generally, the rate effective on Jan. 1, 1972.
[2] Nontariff charges plus tariff charges, generally applied to value of shipment plus freight and insurance at port of entry.
[3] No concession.
[4] No reduction.
[5] Plus sales tax.

UNITED STATES (PERCENT)

Product	Base rate	Final trade agreement tariff rate percent ad valorem	Total import charges
Paperboard (tariff item 251.49)	6.75	3.50	3.50
Leatherboard (tariff item 791.57)	7.50	3.75	3.75

We believe that the foregoing tabulation of tariff concessions, tariff rates, and non-tariff charges on U.S. exports of shoeboard to foreign areas, is ample justification for our position on future legislation with respect to foreign trade policy. We urge that no future trade agreements be made until the problems of disparities in tariff rates and the maintenance of non-tariff charges by foreign countries are solved. These two issues are, we think, capable of solution.

The deficit in our international balance of payments is a critical issue in the economic welfare of the nation. Imports have been rising at a rate in excess of the increase in exports. The total U.S. market for almost everything has been increasing, which has attracted imports to our markets in larger volume. The U.S. market becomes more attractive to foreign producers as our inflationary trends push up domestic prices. It appears that increases in foreign industrial capacity have been made in anticipation of larger exports to the United States. I personally believe that our government has an opportunity in the near future, perhaps a better opportunity than in the past, to demand that a continuing sharing of the vast American market by foreign producers should be conditioned by the elimination of the inequities to U.S. exports in the foreign tariff structures. According to official reports, our government negotiators have been trying since 1963, without success, to achieve some progress in this direction. If retaliatory action, such as border taxes or other devices are necessary, we believe that such actions are justified.

OBSERVATIONS AND CLOSING REMARKS

The shoeboard industry is small business. The stability and welfare of the industry is largely dependent upon the shoe industry—our principal market. We are trying to diversify our products and develop new markets, but this is slow and difficult because of the nature of our production facilities and the specialized character of the products that can be produced. Our industry presently has import competition from Canada and Western European areas and anticipates a substantial increase as the lower tariff makes our market more attractive. Although continuous efforts are made to develop foreign markets, exports of shoeboad are very small. We had hopes that the trade agreement program would improve our opportunities to sell our products in foreign markets. With the exception of Canada, and perhaps one or two other areas, the trade agreement program to date has little, if any, promise for the expansion of exports. The members of the National Shoeboard Conference are willing to support the elimination of tariffs (which must include the elimination of non-tariff charges) on shoeboard in the United States and elsewhere. We believe that in free markets, we can compete on the basis of the quality and performance of our products. We suggest that new legislation make provisions for such agreements, if it is possible to do so. It is just possible that bilateral or multilateral agreements to eliminate tariffs on specific products may be more easily achieved than agreements affecting a large number of products.

The CHAIRMAN. Thank you very much.

Does your associate wish to say anything?

Mr. ROGERS. No.

The CHAIRMAN. Any questions?

Thank you very much for your statement.

Mr. FULLER. Thank you.

The CHAIRMAN. The next witness is Norman Zukowsky, with Jack Citronbaum and Steven Weiss.

Would you introduce yourselves?

STATEMENT OF NORMAN ZUKOWSKY, INTERNATIONAL PRESIDENT, INTERNATIONAL LEATHER GOODS, PLASTICS & NOVELTY WORKERS UNION, AFL-CIO; ACCOMPANIED BY JACK CITRONBAUM, EXECUTIVE VICE PRESIDENT, LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.; AND STEVEN J. WEISS, COUNSEL, NATIONAL HANDBAG ASSOCIATION

Mr. ZUKOWSKY. Yes, there is Mr. Steve Weiss, counsel for the National Handbag Association. Mr. Jack Citronbaum, executive vice president of the Luggage Manufacturers Association of America, unfortunately couldn't be here. He had a commitment for early this evening, and found the schedule of your committee didn't jibe with his commitment, so we will carry on without him.

The CHAIRMAN. Well, if he has a statement and wishes to submit it, we would be glad to leave the record open at this point.

Mr. ZUKOWSKY. We appreciate it, Mr. Chairman.

You are permitting the briefs submitted by both Mr. Weiss for the National Handbag Association and Mr. Citronbaum for the Luggage & Leather Goods Manufacturers of America, Inc. to be part of the record.

The CHAIRMAN. The entire statement will be included, and if you wish to omit part of your testimony here, it will all be included.

(The statements referred to follow:)

STATEMENT OF JACK CITRONBAUM, EXECUTIVE VICE PRESIDENT, LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

This statement and presentation is being made by the Luggage and Leather Goods Manufacturers of America, Inc. on behalf of its member manufacturers. The Association consists of manufacturers of luggage brief cases, attaché cases, school bags and personal leather goods (also known as flat goods or small leather goods; i.e. wallets, billfolds, key cases, pass cases, etc.), located in many parts of the United States. It represents manufacturers in this country who produce upwards of 95% of the total dollar value of shipments made by the luggage and leather goods industry.

The principal manufacturing areas of the luggage and leather goods industry are in the States of California, Colorado, Delaware, Illinois, Maryland, Massachusetts, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Tennessee, Virginia, Washington and Wisconsin.

The luggage and leather goods industry is a small industry by Government standards. The luggage, brief case, attache case and school bags branch of this industry comprises approximately 225 manufacturers of whom approximately 100 firms employ 20 or more persons. The luggage branch of the industry employs approximately 16,000 persons and the personal leather goods branch of the industry employs approximately 12,500 persons. The luggage branch of this industry, which includes luggage used for travel, brief bags, brief cases, attaché cases and similar merchandise, has annual dollar sales of approximately $220,-000,000. (1967). The personal leather goods branch of the industry has an annual volume of approximately $135,000,000. (1967). These figures represent shipments of products made of leather and non-leather materials.

These products of the luggage and leather goods industry are produced largely under union contracts with various affiliate unions of the AFL–CIO.

The purpose of this statement and presentation is to present facts to the Committee on Ways and Means of the House of Representatives in connection with public hearings on tariff and trade proposals.

We urge the consideration of the following points in support of our position.

POINT I.—THERE HAS BEEN A SUBSTANTIAL INCREASE IN IMPORTS OF THIS INDUSTRY'S PRODUCTS IN THE PAST THREE YEARS

The official statistics of the Bureau of the Census of the United States Department of Commerce show that imports of this industry's products have increased approximately 50%. United States Imports of Merchandise for Consumption, in Schedule A, Section 8, Code Numbers 831.0005, 831.0020, 831.0025, and 831.0050, for the years 1965–1966–1967, are reported as follows:

1965	$16, 458, 987
1966	19, 461, 172
1967	24, 328, 488

U.S. IMPORTS FOR CONSUMPTION—LUGGAGE, BILLFOLDS, LETTER CASES, AND OTHER FLAT GOODS

Commodity, code and description, and country of origin	1967 Percent	1967 dollar value	1966 Percent	1966 dollar value	1965 Percent	1965 dollar value
831.0020—Luggage, bags and cases, necessary leather	100	$3,030,035	100	$3,269,564	100	$4,754,091
Japan	13	396,088	13	434,879	40	1,906,620
West Germany	28	843,235	30	991,305	20	936,137
Italy	21	637,398	22	711,011	12	570,268
United Kingdom	13	395,651	15	493,120	10	466,165
Other countries	25	757,663	20	639,249	18	874,901
831.005—Billfolds, letter cases and other flat goods, leather	100	4,391,762	100	3,946,814	100	2,714,304
West Germany	21	916,820	20	775,721	20	539,720
Italy	26	1,120,785	35	1,128,466	31	848,084
United Kingdom	9	408,748	10	391,217	15	409,408
Other countries	44	1,945,409	35	1,651,410	34	917,092
831.0025—Flat goods, luggage, and so forth, textile materials	100	7,072,133	100	4,476,159	100	3,816,701
Japan	83	5,869,452	78	5,458,112	78	2,959,739
Other countries	17	1,202,681	22	1,018,047	22	856,962
831.0050—Flatgoods, luggage, bags and cases, necessary of materials n.s.p.f	100	9,834,558	100	7,768,635	100	5,173,891
Japan	54	5,343,140	53	4,144,339	48	2,457,260
Hona Kong	22	2,218,222	23	1,758,568	35	1,832,550
Other countries	24	2,273,196	24	1,865,728	17	884,081

Source: FT 125, U.S. Department of Commerce, U.S. Imports for Consumption.

Definitions (*From Tariff Schedules of the United States Annotated*)

Luggage—covers (I) travel goods, such as trunks, hand trunks, lockers, valises, satchels, suitcases, wardrobe cases, overnight bags, pullman bags, gladstone bags, traveling bags, knapsacks, kitbags, haversacks, duffle bags, and like articles designed to contain clothing or other personal effects during travel; and

(II) brief cases, portfolios, school bags, photographic equipment bags, golf bags, camera cases, binocular cases, gun cases, occupational luggage cases (physicians', sample, etc.), and like containers and cases designed to be carried with the person, except handbags.

Flatgoods—covers small flatwares designed to be carried on the person, such as banknote cases, bill cases, billfolds, bill purses, bill rolls, card cases, change purses, cigarette cases, coin purses, coin holders, compacts, currency cases, key cases, letter cases, license cases, money cases, pass cases, passport cases, powder cases, spectacle cases, stamp cases, vanity cases, tobacco pouches, and similar articles.

POINT II.—THESE INCREASED IMPORTS HAVE ADVERSELY AFFECTED THE LUGGAGE AND LEATHER GOODS INDUSTRY

The luggage and leather goods industry is a small and highly competitive industry. Price is a predominant factor in determining the sale of its products. The raw materials used in the manufacture of these products—leather, vinyls, wood, steel, brass, paper, silks, rayons, nylons, cottons, fiberglas, aluminum—are American-made products, produced under the high wage standards and costs prevalent in American industry. This results in the payment of the highest possible prices for these raw materials which represent approximately 45% of the eventual cost price of the articles made. Add to this factor the high wages paid in these industries, wages which represent approximately 20%–25% of the ultimate cost price of the articles produced, and there is every reason to fear and be concerned about the rise in imports. These imports are manufactured under drastically different labor conditions from those which exist in the United States. The prevailing wages paid in the leather and leather products industries in the countries which are the chief exporters of luggage and leather goods, translated into United States dollars, are set forth in the following schedule.

AVERAGE HOURLY EARNINGS OR WAGE RATES OF WORKERS IN THE MANUFACTURE OF SMALL LEATHER GOODS OR RELATED INDUSTRIES IN 8 COUNTRIES

Country and description	Average hourly earnings (U.S. dollars)		
	Men	Women	All employees
Austria: Leather products			[1] $89.82
France: Leather and leather products	[2] 0.895	[2] 0.691	
Germany, Federal Republic: Leather products	1.08	.752	.882
Italy: Leather and leather products			.51
Spain: Leather and leather products	[3] .276	[3] .197	[4] .254
United Kingdom: Leather goods	1.05	.642	
Japan: Leather and leather products			.471
United States: Leather and leather products			2.03

[1] Average earnings per month; average hours worked per week, 41.3.
[2] Average hourly wage rates of skilled workers in the Paris area, highest of 5 wage zones in France.
[3] Skilled and semiskilled workers.
[4] All leather industry average.

Source: National statistical publications.

The countries with the lowest wage scales are those from which imports are rising and causing the greatest damage to our industries. This disparity in wage rates can become even more devastating when there is added to the United States rate an approximate 20% of earnings which represents fringe benefits.

These foreign imports use their low prices to drive low priced American products off the market. This is their only competitive tool. American products are anxious to compete with foreign products on the basis of style, finish, quality, ideas, construction, workmanship and consumer appeal. But, competition on the basis of price as a direct result of low wage rates is a hopeless and frustrating task. In fact, it is an impossible task. American industry cannot expect nor does it want the low wage rates which exist in foreign countries. Our economy is built and thrives on the basis of the highest labor standards. To pit these standards against the low labor standards of foreign competition is unfair and unjust and can only mean disaster. American living standards have been constant in their rise—in many instances helped and propelled by the Government.

POINT III.—PERCENTAGE OF IMPORTS TO TOTAL DOMESTIC VALUE OF SHIPMENTS GROWING

In the past three years there has been a steady growth of imports when compared with the domestic value of shipments. In 1965, imports represented 5% of the domestic value of shipments which were $286,582,000. In 1966, imports represented 5.5% of the domestic value of shipments which were $348,683,000. And, in 1967, imports represented 6.7% of the domestic value of shipments which totalled $360,118,000.

These growing import percentages represent an increasing threat to our domestic production. Unless some quota system is imposed at this time, this threat will grow larger and larger. The two principal export countries, Italy and Japan, have only recently become engaged in the manufacture and sale of these products on an expanded export scale. In a relatively brief period of time they have been able to capture 6.7% of the domestic market. Given time, expertise and opportunity, their impact can become so drastic as to cause curtailment of employment and business losses to our domestic manufacturers.

CONCLUSION

Mindful as our industries are of the commendable plan which the United States has pressed so aggressively for the firm establishment of economic relations with foreign countries, we cannot overlook or lightly pass over the harmful effects which must result from any competition of imports from low wage countries.

The facts and figures outlined in the previous pages indicate some very salient and indisputable conclusions.

NOTE.—Source for Domestic Value of Shipments Figures—Bureau of the Census, U.S. Department of Commerce—Series M31E.

First, and foremost, is the well-known fact that the American workman is the highest paid of any country in the world. Second, the American standard of living is the envy and the pinnacle of achievement for all countries of the world. Third, as a result of the first two factors, American-made materials are the highest priced materials in the world. Consequently, products made of these materials and made by American workmen, of necessity must be the highest priced items in the world.

Imports from other countries can only make inroads upon American-made goods on the basis of *price*. American-made goods can and do compare favorably with foreign-made merchandise on the basis of style, quality and eye-appeal.

Price being the only advantage, the American manufacturer has the right to expect that he will be given equal opportunity with his foreign competitor to capture that portion of the American dollar devoted to his commodity.

To permit a flood of luggage and leather goods products into the United States because of low foreign wage rates would soon see such inroads made on American merchandise as to drive many an American producer out of business.

Our industry is engaged in a competitive struggle with other American industries for a share of the consumer dollar. Our products are the result of American living standards which encompass travel, leisure, utility and comfortable living. While within their scope they are essential to the American way of living, they cannot be accurately described as acute necessities. For that reason, competition from within is keen; keen enough to keep all of our manufacturers constantly alert for new ideas, designs, construction, merchandising and production methods and in a never-ending search for merchandise to catch the eye and the purse of the American consumer.

Competition from within is expected and welcome. It is competition from outside which can make its appeal only on the basis of price that must be feared and fought. As has been pointed out, this industry is small, highly competitive and constantly fighting for existence. It is highly sensitive to outside competition in the sense that it cannot afford to lose sales volume. It is that kind of competition which can mean the complete disintegration of our American business firms. That kind of competition must be made difficult to achieve in the same way that access to our products is made impossible by exclusion barriers imposed by those who flourish on that kind of competition.

In the light of the facts outlined herein, we recommend the establishment of a quota system on the importation of the products mentioned herein; such quota system to peg these imports at current levels when compared with the value of domestic shipments.

STATEMENT OF STEVEN J. WEISS, COUNSEL, NATIONAL HANDBAG ASSOCIATION

The National Handbag Association is a trade association consisting of 150 manufacturers of ladies' and children's handbags, purses and pocketbooks of all styles and materials representing 75% of the total domestic production of such items. The overwhelming majority of handbag factories are located in the Middle Atlantic region, primarily in the State of New York and more particularly, in the metropolitan area of New York.

The National Handbag Association welcomes this opportunity to present to the Committee on Ways and Means, its views about the causes, effects and possible remedies regarding the ever-increasing tide of imported handbags. It is clear that with this ever-increasing flow of imports, the tide of domestic production is ebbing. The domestic industry has arrived at a precarious position. It is in no sense an exaggeration to say that the very existence of this industry is presently at stake.

In 1949, for example, there were 114,342 leather handbags imported into the United States. By 1966, this had escalated to the record heights of 2,331,758 leather bags! The value of imported leather handbags in 1949 was approximately $800,000.00. In 1967, their value had increased to $9,900,000.00!

This astronomical rise does not tell the whole story. Prior to August 31, 1963, the effective date of the new Tariff Schedules and re-arrangement of classifications, it was impossible to obtain precise data on dollar value or quantity of items of non-leather materials. Straw handbags were grouped together with straw baskets, laundry baskets, waste baskets, bread baskets, etc. But we now know, as a fact, that these imports are growing by leaps and bounds. They are coming from Japan and Hong Kong in tremendous numbers.

What is particularly noteworthy is the fact that escalation of imports has occurred also in those categories where there has been no basic change in rates of duty. The rate of 20 percent for leather handbags and 17 percent for reptile handbags has remained unchanged since 1948.

The re-classification of Tariff Schedules in 1963 was accompanied by a reduction in rate of duty to 20 percent on handbags of beads, spangles, etc. The result was instantaneous! Whereas total imports in this category for the eight month period from January 1, through August 31, 1963. (prior to re-classification) totaled 600,000 units with a value of $1,400,000, in just four months *after duty reduction*, this category alone amounted to 700,000 units with a value of $1,200,000. Thus, in half the time, imports were 100,000 units or almost 17 percent greater than in the eight preceding months combined! Japan's portion of both these totals ran to almost 800,000 units in this category alone! The figures for 1967 show that the value of this type of imported handbag for that year was $5,000,000. In 1966, the value was $4,240,000—a nearly 20 percent increase in just one year!

The figures for just the four months since re-classification, (the last four months of 1963) present, by themselves, an alarming pattern. It should be emphasized that the final four months of any year are, commercially, the least timely period for such merchandise. Historically, the bulk of this merchandise being for consumer use in late Spring and Summer, the normal inventory build-up takes place in January and February, *not* during the last four months of the year. But, in these categories, the statistics zoomed as follows:

Month	Units	Dollars
September 1963	463,162	$327,306
October 1963	890,219	814,161
November 1963	1,086,270	1,060,783
December 1963	1,688,474	1,626,783

Four month totals, September through December, 1963: 4,128,125 Units; $3,828,265 Dollar value.

Re-classification, with concomitant reduction of so many rates of duty, resulted in an explosive growth of *over 264 percent* in units and *more than 395 percent* of dollar value in the four month span in straws and basket type handbags!

And what is the situation today? The figures for the year 1966 show that, for the category, "All Other Materials" which consists primarily of imported handbags in the straw family, the value was $18,358,000; the number of units was 21,918,000.

The Census figures show that, in 1965, the value of shipments from domestic handbag manufactures was $274,850,000. In 1965, the "first cost" value of imported handbags was $33,358,000. "First cost" means market value in the foreign country, excluding the U.S. import duties, ocean freight and marine insurance. By the time the merchandise reached the retailer, its cost had increased to about 66 million dollars. This represents approximately 27 percent of the total wholesale dollar value of handbags produced in this country at the retail level.

At least 30 cents of every dollar spent *at retail* for handbags purchased in the United States is spent for handbags of foriegn origin. *One out of every four* handbags sold over the retail counter is an imported item.

These import statistics which the National Handbag Association has presented to you, signify conclusively that imports are ever-increasing even when tariff rates have remained constant; also, the startling rise in imports in categories where tariff rates were reduced.

The new import schedules which took effect on January 1, 1968 arising out of the "Kennedy Round" negotiations pursuant to the Trade Expansion Act of 1962, only accentuate the ominous note that the recent past has illuminated: the life and death struggle that the American handbag industry is engaged in. We can expect an even greater influx of imported handbags because of tariff rate reductions. We can expect the retailer to buy more imported handbags directly, ignoring the American distributor of such. We can expect a more determined attempt on the part of the American handbag manufacturer to produce his product outside of the continental United States. As mentioned above, the tremendous increase in the importation of leather handbags has occurred without any tariff reduction. The

50 percent reduction (over a 5 year period) beginning January 1, 1963 for leather handbags, and similar reductions in many other categories of handbags, only opened wider the sluice gates for imports and contributed even more emphatically to the decline and stagnation of the industry.

It is difficult to separate the causes, effects and possible remedies regarding the tremendous influx of imported handbags; in ways, a vicious cycle blurs the distinctions. The subsequent discussion, we believe, will bear this out.

The handbag industry is a small industry consisting primarily of small manufacturing units. The 1963 Census of Manufacturers shows that there were, at that time, 545 handbag manufacturers; and only 262 of such establishments had more than 20 employees. To emphasize the point even further, only 72 out of the 545 plants had more than 100 employees.

The 1958 Census showed that there were 620 handbag manufacturers. Consequently, comparing 1958 and 1963 figures, there has been a 12 percent *reduction* in the number of handbag manufacturers.

Competition between these many small units, each of them with a low sales volume, is keen, and the profit margin is low. It is estimated that net profits after taxes approximate only about one percent per dollar of sales. Since a comfortable cushion of capital is hard to obtain under these circumstances, and considering the whims of fashion, the risks of doing business are great. There is an extraordinary mortality rate in the handbag industry: approximately 15 percent of the firms passing out of existence annually. Some of them may reorganize and reappear on the scene for a longer or shorter period, but the fact of business mortality remains—and even though it is an industry which one can enter with very little capital, very few are tempted to do so.

Yet, it is accurate to say that the handbag industry is a good example of free enterprise in our country. In this industry, it is only a short step from being an employee to being an employer. Yet, from 1958 to 1963, there has been a 12 percent decrease in the number of handbag firms. It is safe to assume, based on current figures as to the value of domestic production and the number of production workers presently in the industry, that the next Census will show an even greater decline.

The industry's dollar volume in 1958 was $234,319,000. Three years later, in 1961, it was up to $259,000,000. In 1963, it was up to $280,343,000. At best, during this period, considering the changes in the value of the dollar, it would be fair to say that the industry was standing still. Yet, during this same period, there was a 12 percent decrease in the number of handbag manufacturing establishments! The Annual Survey of Manufacturers (Bureau of the Census) shows that for the year 1965, the value of shipments was $274,850,000: a decline from the year 1963!

The handbag industry is a seasonal one and it has virtually lost one of its seasons: the "white handbag" season, which has provided Spring employment in the past, it being replaced by the vast importation of straws and other handbags of a similar nature.

As to production workers employed in the handbag industry: In 1958, there were approximately 19,500 workers employed: In 1961, there were 20,800: In 1963, there were 21,552. For that period, 1958 to 1963, the number of production workers remained fairly constant, especially in view of the elements of season and style which create, in this industry, the same vicissitudes which characterize the women's apparel trades generally. But, the most recent figures prove, once again, that we are in the midst of a sharp deterioration of the American handbag industry. For the year 1965, there were 20,239 so employed, a 10 percent *decline*!

In a typical American handbag factory, a large majority of the workers performing the various operations necessary to the manufacture of handbags are unskilled. A large portion of them are women who work to supplement the family income. When employees such as these lose their jobs, the overwhelming probability is that they drop out of the labor force permanently and consequently, the families, of which they are part, will remain, to that extent, economically deprived. The outlook for handbag workers who lose their jobs because of lack of work is bleak indeed.

We would, though, want to emphasize one aspect of this unemployment problem. During the past 50 years, various ethnic groups have come into this industry as unskilled workers. We have seen many of them improve their skills and become cutters and framers and who now command and receive a solid and respectable weekly wage. We have seen some of these people open their own factories and, with great tenacity, much sweat, yes and tears also, prosper.

We, in the handbag industry, are in the midst of another ethnic wave: The Puerto Rican. Governmental action on many fronts substantiates the avowed policy of our country to help the Puerto Rican and other minority groups move up the economic ladder so as to give them the same opportunity to realize their aspirations and dreams as any other American. Other minority groups have, in the past, used the handbag industry to move up the economic ladder. This Association submits to you that governmental action in the area of the deleterious effects of imports on domestic industries is most urgently needed. It is a contradiction to give with one hand and take away with the other. Particularly where the "taking away" is concerned with the cardinal tenets of our American heritage; the right of the individual to better his life and that of his family by his own free initiative. To discourage this is to suppress the dignity and sense of pride inherent in each and every one of us. A government welfare check cannot take its place.

It is obvious that the flood of imported handbags has placed the American handbag industry in a very precarious position for both manufacturer and worker.

At the outset, it was stated that it is very difficult to separate causes, effects and remedies regarding this situation. Let us now explain this more thoroughly. It has already been shown that the handbag industry has been, traditionally, a "risky" entrepreneurial venture; that profits are "paper thin"; that very little capital is required.

Very little capital is required because the handbag industry is largely a handcraft industry. The handbag industry does not lend itself to the mass-production techniques and the mechanization attendant upon automation which have enabled other industries to overcome the differential existing between the wages paid in industries making similar products abroad. Instead, labor costs in the handbag industriy, as in any other handcraft industry, play a decisive part in the overall selling cost.

There is little or no technological advantage for American manufacturers. The foreign manufacturer, since so little capital is needed, can easily equip his factory with comparable machinery to be found in the United States.

This is not to say that wages for handbag workers are high, measured by any test. There is no denying the fact that this industry's wage structure, like its profit margin, lags behind much of the American economy.

It is clear that one factor that has permitted the imported handbag to take the place of one out of every four domestic handbags is the wage differential between the American worker and his counterpart in other countries.

Let this point be emphasized by what we think is a very vivid illustration. Let us consider handbags of beads. Everywhere in the world, beading is a homework-cottage industry. American labor legislation and production techniques have long since moved out of the homework stage. How then shall an American-made cocktail, dinner or evening bag compete with handbags made in Hong Kong or Japan for this same use? The cost of production for these handbags is so low that the maker is even able to purchase the more desirable glass beads produced in Italy, Czechoslovakia, etc., transport them halfway around the world to the Orient, produce the handbags under these primitive conditions, then ship the finished product again half around the world to the American market and still undersell the equivalent handbag made in America.

Technology, so-called American "know-how" cannot remedy such a situation. The handbag industry is just not the type of industry suitable for such innovation.

Ours is a style industry. The handbag designer must constantly seek new ways of appealing to the customer. Competition based solely on price, even if that were possible in spite of the wide disparity in wages, is injurious to a style industry. Style, finish, quality, ideas as to construction and workmanship are all elements which the handbag industry must employ if it is to survive and prosper. If the product is cheapened and price is made the sole consideration, every effort to lift the industry to a better state by promoting style is doomed to failure.

The depreciation of an item whose value must depend, in the last analysis on style appeal, cannot but be a source of deep concern to the industry and the workers in it. This concern is deepened and the fears increased when the countries having the lowest wage scales are taking over the import field so drastically.

Retailers in this country, unconcerned by the effects which imports have on domestic workers, even though they depend on the earnings of these workers for the success and prosperity of their establishments, are engaged in expensive and far-flung promotional activities to increase the sale of imports. They have stimulated a demand on the part of the consumer for products bearing a foreign tag. Italian, French, Oriental and other handbags are advertised in stores, often to the exclusion of the domestic product. This promotional activity bears no relation whatsoever to the quality of the product or workmanship.

There is little that handbag manufacturers can do to overcome this well organized campaign which, in effect if not in time, imposes a boycott of the domestic product. But, if this process continues, it will further destroy an industry already laboring under severe handicaps. Non-action on the part of the government then, in the light of the new tariff rate reductions, will accelerate the destruction of our industry. The retailers' profits may increase, but the employers and workers in the American handbag industry, already the victims of tremendous imports, will pay the price for the benefits derived by other groups.

Actually, the American handbag manufacturer is prepared to compete with foreign-made merchandise on the basis of style, quality and eye appeal. But, the ground is cut out from beneath his competitive posture vis-a-vis foreign products primarily and fundamentally on the basis of price.

We constantly hear the term "world market". Implicit in this is the idea that there be reciprocity with respect to tariffs and trade barriers, thereby resulting in a free competitive world-wide situation in which all countries prosper and flourish. On the surface, at least, there is no disparity in the duties on handbags in the United States vis-a-vis France, Italy and West Germany which are the principal exporting countries of the world in the category of leather and reptile handbags. But in France, there is, in addition to the duty, a customs stamp tax of two percent levied on the value of total customs charges as well as sales and other internal taxes. In Germany, a turnover equalization tax of four percent is superimposed on the duty. Italy, on the other hand, has only inconsequential administrative fees. However, the duty there is pegged at thirty percent. Attention should also be directed at the subsidies granted to the foreign manufacturers by their respective governments.

Reciprocity is therefore a hollow-sounding note, and the hollowness is accentuated if one contrasts the escalation of imports with the relative sameness of exports during the past fifteen years or more. In 1949, we exported 11,592 leather handbags with a total value of $41,340.00. In 1960, there were 125,435 leather handbags exported with a total value of $337,368.00. In 1966, the exports of handbags of leather or materials other than plastic was as follows: Total number of items, 142,714; dollar value, $641,769. The export-import imbalance is so disproportionate that comparisons are out of the question.

Reciprocity may be meaningful in other sectors of the economy. It is totally irrevelant, however, to the realities in the handbag industry. However, laudable the objective of reciprocal lowering of tariff barriers and other obstacles to trade viability may be, we ask this Committee to appreciate the unwillingness of American manufacturers and American workers to become the sacrificial lambs on the altar of trade-tariff comity.

Because of the peculiar factors inherent in a handcraft industry, particularly such a one as the handbag industry, little can be done by the American manufacturers themselves to stem the tide of imports. As a matter of fact, more and more American manufacturers are, themselves, importing to supplement their domestic production. But this written presentation by the National Handbag Association is ample proof of the concern felt by American manufacturers regarding the deluge of imports. The American handbag manufacturer wants the industry to remain a basically domestic one. It needs the help of his government to keep it so. He is prepared to compete with other sectors of the American economy for a share of the consumer dollar. This competition is sufficient, unto itself, to keep the handbag manufacturer on his toes for new ideas, new designs, new merchandising methods—all aimed at catching the eye and the purse of the American consumer. But, while competition is expected from within, it is the competition from outside which has placed a stranglehold on both the handbag manufacturer and his employees.

The handbag industry, because of its highly competitive status and its sensitivity to any adverse conditions, needs all the help it can possibly receive from its government. And we ask that your thinking be addressed to the question: Is it fair and reasonable to permit tariff and trade policy to place an industry—its employers and employees—in constant fear of being deprived of their businesses, their jobs and their freedom to continue without impending disaster?

The President of the United States has said in his address to this Committee that:

"Some firms . . . 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."

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

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

We ask the Committee to consider our needs in the light of the President's statement.

Mr. Zukowsky. I will try to proceed as expeditiously as possible.

My name is Norman Zukowsky. I am International President of the International Leather Goods, Plastics, & Novelty Workers Union, AFL–CIO.

I am accompanied this session by one industry representative, Mr. Steven J. Weiss, counsel for the National Handbag Association. I have already explained the absence of Mr. Citronbaum of the Luggage & Leather Goods Manufacturers Association.

By consent it is agreed that I would make the presentation, on behalf of the union, second, on behalf of the industries which comprise the jurisdiction of our union. I may also say, parenthetically, that we feel our industries, or at least I feel the industries are essential to the economy of this country.

If, while certain circles may say that a $50 handbag is a luxury, or a $100 piece of luggage, I would agree, but popular-priced handbags and luggage are essential.

A handbag is the sum total of a man's pockets, and certainly, luggage is needed for businessmen who travel, Congressmen, lawyers, and even union representatives. That would apply also to personal leather goods, as well.

In behalf of the International Leather Goods, Plastics and Novelty Workers' Union, AFL–CIO, many of those 40,000 members are engaged in the production of handbags and purses, personal leather goods and luggage, we are presenting this brief in response to the press release, dated May 9, 1968, by the Committee on Ways and Means which invited participation by "interested organizations" in a public hearing to be conducted, commencing June 4, 1968, by the committee on the general subject of the balance of trade between the United States and foreign nations.

Since the job security and welfare of our members, including the maintenance of the standards and conditions built up over several decades, are intimately bound up with this problem of tariff and trade, our international union can definitely be categorized as an "interested organization."

I. THE LEATHER GOODS' INDUSTRIES IN THE CONTEXT OF WORLD TRADE

Concerned as our international union is, and understandably so, with the specific problems of the leather goods' industry, we are mindful that these problems are minor when placed in the thrust of the U.S. economy as a whole, and, beyond that, of the general outlines of world trade. In 1965, according to the latest available official data of the

Bureau of the Census, the value of shipments for the major branches of the industry was, as follows:

Luggage	$250,232,000
Handbags	262,769,000
Personal leather goods	180,808,000

This comes to $693,809,000 on a cumulative basis. It is estimated, unofficially, that the cumulative total of 1967 was upward of $800 million—an increase of more than 10 percent in a period of 2 years that reflects, among other things, spiraling costs, for prices rose nearly 4 percent in 1966 and at least an equivalent amount in 1967. But in an economy that is at a high-soaring level of $735 billion, this industry is only one-tenth of the 1 percent of the national total.

We must bear in mind that the economics of the United States has become increasingly interdependent with world economics. U.S. export-import trade exceeded $55 billion during 1966, with approximately $30 billion in exports and more than $25 billion in imports. In fact, this excess of exports over imports was the only big plus in the U.S. balance of payments, but the picture with respect to this import-export relationship is not getting any better, for imports, generally speaking, are gaining more ground than exports.

If in general terms the export-import relationship is still favorably stanced toward the United States in the specific case of leather goods' industry, it is predominantly weighted in favor of imports. In 1967, for example, $21.3 million of luggage, billfolds, letter cases, and other flat goods were imported into the United States as compared with $11.1 million in 1958. In the same period exports of American luggage leveled off at approximately one-fourth of this figure.

Far more significant are the trends in the handbag sector of the industry. In 1958 the number of units imported was roughly equivalent to that exported, 2,382,000 imported to 1,939,000 exported. In 1966 an enormous gap had developed in this import-export relationship. In that year 29,508,000 handbags and purses were imported. Significantly, the units exported actually went down as compared to the 1958 level, to 1,006,000. In terms of value, imports of handbags and purses amounted to $5,993,000 in 1958 and reached the level of $35,305,000 in 1966. In 1967, according to preliminary data, the value of imports went over the $40 million mark. In other words, the import-export relationship at one time almost coterminous, had burgeoned forth in a situation where in less than a decade we were importing in terms of value 20 times as much as we were exporting.

It is this development, particularly in the handbag sector that is the largest area of our jurisdiction, that is particularly disconcerting to our union. Other relevant criteria might outline the nature of the problem. In 1958 the share of the American market preempted by foreign handbags and purses was 2.6 percent. Five years later, in 1963, it had doubled to 5.2 percent. And the escalation has been constant since that time, reaching a level of 11.5 percent in 1966 and 14.3 percent in 1967.

In other words, the import share of the domestic market in a period of less than a decade has increased by approximately 600 percent.

This trend will undoubtedly be accelerated as a consequence of the reduction in tariff duties by 50 percent during the next 5 years. Indeed, many manufacturers and retailers in the handbag sector have turned, and increasingly are turning, to imports either to supplement their existing lines or as a complete substitute for them. It is too soon to make a statistical delineation of this trend, although a cursory reading of Women's Wear Daily or an on-the-spot check of department stores would underscore the emphasis given to foreign merchandise.

Another relevant statistic is the number of production employees in the industry. In 1963, when imports constituted 5 percent of the domestic market, the number of production employees was 21,552. It dropped to 20,239 in 1965, and according to unofficial figures, went below the 20,000 mark in 1967.

Parenthetically, may I say that many of these work in small towns, and the employees are made up of definitely underprivileged people, in terms of work skills, middle-aged women, and so on.

It is a likely hypothesis, therefore, that the increasing share of the domestic market preempted by foreign products will be accompanied by a constant diminution of employment opportunities for American handbag workers.

II. FACTORS CONTRIBUTING TO THE INFLUX OF IMPORTS

How did it develop, one may inquire, that whereas at one time imports and exports were on the same plane, an untoward balance has emerged? The reasons for the poularity of some handbags and purses, particularly of French and Italian design, are not hard to find. These include their own fine quality, the added selection they afford consumers and the significant impact of promotional campaigns by department stores who plug them both as a status symbol for the customer and as the basis for an extremely favorable markup for themselves.

But an objective appraisal cannot be limited to a consideration merely of these factors. If it were only a matter of quality and design American handbags could compete most favorably with those of the rest of the world, including French and Italian handbags. Actually, the greatest accretion in imports has been on the lower end of the price spectrum, in the so-called popular lines which is the chief forte of Hong Kong and Japan.

The root-cause of the export-import disparity lies in two irrefragable facts:

1. The preferential treatment, expressed in myriad ways, accorded by foreign governments in encouraging export to the United States of their handbags, purses and personal leather goods as well as luggage; and

2. The significantly lower wage standards and conditions obtaining these exporting countries, thus giving them a distinct competitive advantage not only in the world market but also in the American market as well.

With regard to the first point, it is sufficient to note at this juncture that the American leather goods' industry is subjected as are most other American industries, to vertiable panoply of restrictions and encumbrances. These include the imposition of quotas, the use of discriminatory border and sales taxes, inequitable practices with respect to licensing and other nuisances as well as a buy-national policy. But these encumberances with respect to handbags are far less significant in creating the import export disparity than is the issue of unfair competition created by the tremendous gap in the wage structure and employment conditions of American workers in this industry vis-a-vis those of other workers.

III. CRUCIAL ROLE OF WAGE DIFFERENTIALS

At the AFL–CIO Convention in December 1967 there was unanimously adopted a resolution for the United States "to seek the development of workable international fair labor standards in international trade through international negotiations"— the aim being "not only to protect U.S. workers against unfair competition, but also to assure workers in other countries a fair share of the increased returns resulting from expanded trade."

On this issue we stand four-square with our parent body, the AFL–CIO. Indeed, prior to the onset of the Kennedy round of GATT negotiations, and as a guideline for such discussions, our international union had called for precisely such an international fair labor standards procedure. We are convinced that the point we made in the spring of 1964 is just as relevant in the summer of 1968, and the experience of the leather goods industry during the past 4 years has added further evidence in support of our conviction.

Indeed, it was precisely the kind of experience such as has been encountered in this industry which was the frame of reference in the adoption by the AFL–CIO of this policy.

The manufacturing of handbags is a ready source of employment for unskilled and semiskilled workers, many of whom are so abundant in the underdeveloped countries of the world. Leather goods manufacturers in such areas, despite the existence of vast unfulfilled needs in their own countries, have chosen to concentrate on the export market with the United States as their principal target. They have preferred to take the quick profits exporting to this country from foreign lands to following the economically sounder and socially more responsible path of building factories that will produce not only leather goods but soft goods generally for home consumption.

American producers of handbags cannot compete against these imports from low-wage countries. The industry in the United States is highly competitive and, as a result, costs of production and selling prices are kept as low as possible. Profits are paper thin and it is estimated that in the handbag industry net profits after taxes approximate only about 1 percent per dollar of sales. Under these circumstances, it is impossible to build up a cushion of capital. And when one considers the whims of style, together with seasonality, one may understand fully why the risks of doing business are so great. An estimated 15 percent of the handbag firms pass out of existence annually, and many others hover on the margin of existence. Competition from imports can only increase the already high rate of business mortality in these industries.

Nor can manufacturers of handbags offset low-wage competition with further improvements in machinery and operating methods. Any technological improvements here are readily available to producers throughout the world; the relatively low cost of new capital improvements makes it possible for handbag manufacturers for example, to equip their shops with the same machinery and equipment as is found in the most advanced American factories.

Since there is little or no technological advantage for American manufacturers of handbags, as compared with their foreign competitors, and inasmuch as workers in our jurisdiction overseas are easily brought to high levels of proficiency somewhat analogous to the experience of Puerto Rican workers in our jurisdiction, there is little difference in productivity. As labor costs represent such a high proportion of total costs in manufacturing handbags, relative wages become crucial.

Recent figures furnished by the Bureau of Labor Statistics of the U.S. Department of Labor underscore the great competitive advantage given to importers to this country as a consequence of exploiting sweatshop labor: In France, male workers in our jurisdiction receive $.895 per hour, while female employees receive $.692. In Germany, average hourly earnings for both sexes are $.883. In Italy the average is $.51, while in Spain it is only $.254. The average goes up to $1.056 for male leather goods workers in the United Kingdom, although female employees receive only $.642 as an hourly average wage. In Japan, whose exports to this country in this area has escalated to astronomical heights, the average hourly earnings are $.371.

The U.S. Department of Labor had no comparable figures for Hong Kong which during the 1960's has become the chief competitor for this industry with reference to spring and summer handbags. However, in related industries, such as textiles and apparel, the wages run between $0.13 and $0.15 an hour. Homeworkers earn even less and this evil, now largely eliminated in the United States, is still widespread, in those leather goods' manufacturing countries which export in large volume to the United States.

By contrast, workers on handbags and personal leather goods in New York State, the leading producer of such items in the country, had an hourly average wage in February 1968, the latest figure cited by the Research and Statistics Office of the New York State Department of Labor, of $2.03. Coincidentally, the weekly hours worked were 36.2 as contrasted with the significantly longer workweek in other countries, up to 12 hours a day in Hong Kong for example, and this without the overtime premium pay which is universal in this country.

The International Leather Goods, Plastics and Novelty Workers' Union, has organized the overwhelming majority of the Nation's handbag workers. If collective bargaining alone were the complete answer to the problems of our members and the industry we could endeavor through negotiations to raise wages to make them comparable to those paid workers of comparable skill in other industries as well as sufficiently adequate to meet the standards of minimum comfort and decency, as defined by the U.S. Department of Labor. It has failed to do so because of the plight of the handbag industry, a condition due in large measure to the foreign competition with which the domestic manufacturers are confronted. True, the wages paid to our members are below the levels paid to workers in other American industries. But they are still far above the levels paid abroad. Any widening of the wage gap, however desirable from the standpoint of giving our members the conditions they need and deserve, would only give further impetus to the trend toward imports, and in effect complete the destruction of the industry.

Such destruction would create great hardship for all concerned, the employers, the employees, the Federal Government and the consuming public, without any compensating advantages. American consumers do not need foreign competition to prevent price gouging in handbags. True, prices of such items have risen in the last decade, but at a much smaller rate than has the general price level. Neither do consumer need imports to relieve shortages or to obtain leather goods' items or styles not readily obtainable from domestic sources. Manufacturers of handbags have provided consumers with an abundant supply of well-made, well-designed and reasonably priced items for all purposes and for all segments of the population. We can compete with foreign-made merchandise on the basis of style, quality, and eye appeal. But the ground is out from underneath the domestic producers' competitive posture vis-a-vis foreign producers primarily on the basis of price.

If a basic American industry withers away because of the flood of imports, and this is what is happening precisely with respect to the handbag industry, the result would constitute a disaster. Communities in which leather goods' plants are located will be hard hit. Suppliers of raw material and equipment will lose heavily. Many of the displaced leather goods' employees will be thrown into the ranks of the permanently unemployed. A high percentage of leather goods' workers are middle aged, and for them the alternative job opportunities are extremely limited, while retraining possibilities are few. Well over 50 percent of the employees in these industries, as a New York State Department of Labor study documents, are women workers.

They will especially have great difficulty in finding other work because their mobility is limited by family obligations. We have made progress in the past few years in reducing unemployment to a figure below 4 percent. But we cannot be complacent in our struggle against joblessness. We can ill afford to enlarge the hard core of long-term unemployment in the United States by a policy which allows imports to wreck basic American industries.

IV. FAIR INTERNATIONAL LABOR STANDARDS

Our international union has joined in the past with other AFL–CIO affiliates in urging that international trade relations be expanded and improved, and the labor movement in this country has long supported the reciprocal trade program of our Government as fomulated in the Trade Expansion Act of 1962. These policies, however, were never intended to become the engine of destruction for the American leather goods' industries by permitting the products of sweatshop labor abroad to flood domestic markets. The grave situation of the industries within our jurisdiction created by these imports requires immediate action by our Government. We, therefore, urge the Congress to reexamine U.S. foreign trade policies in the light of mounting imports and of the special problems of the leather goods' industries arising out of such unfair competition. It is our hope that out of the reevaluation of the Trade Expansion Act of 1962 Congress will formulate a new policy on international trade, a policy which will result in mutual benefit and which will avoid the destruction of the handbag industry and ruin to American workers and businessmen.

A central feature of such a reevaluation of tariff policy should incorporate, as noted above, the formula by the AFL–CIO in the promulgation of fair international labor standards as the basis for meaningful trade viability.

Its most significant feature is the concept that in international tariff and trade negotiations and through multilateral tariff and trade machinery, efforts can be made to raise wages and improve labor standards in exporting countries. This would help to eliminate unfair labor standards in exporting countries as either a competitive cost advantage or as a basis for increased trade restrictions by the importing country.

If there are substantial differences in unit labor cost, let us say, between personal leather goods' workers in New York City and their Italian counterparts, there is at least a prima facie case for concluding that labor in the exporting country is being exploited. There may be offsetting cost disadvantages (transportation, for example) which prevent an increase in wages, however. The test of what the balance is between the cost advantage to the employer of low labor costs and offsetting cost disadvantages is his rate of profit.

It is our union's view that wages of leather goods' workers in any country involved in the GATT deliberations should be raised when the unit labor costs of such industries are substantially below those of foreign competitors. Raising wages in this circumstance would not only lessen the threat to employment opportunities of workers in importing countries, such as our members in New York, but would also assure that the employer in the exporting country would not reap the sole gains from expanded markets with all decisions as to how such funds are to be distributed left to him.

While there may be problems involved in how to determine the existence of unfair labor standards in international trade, the problem still remains of what can be done to eliminate such conditions.

Our recommendation, suggested by our union in its presentation of the Tariff Commission more than 4 years ago on the eve of the "Kennedy round" of GATT discussions, was that our tariff negotiators should simply make clear that no tariff concession would be made on products that are processed by workers receiving wages which are substandard in the receiving country.

The importing countries might in the course of such GATT discussions make suggestions or recommendations as to steps which the exporting country should take in order to improve wages and working conditions in exporting industries and thereby remove actual or potential problems of market disruption. If there were disagreements as to the actual situation in the exporting country with respect to wages and working conditions—if, for example, we in the United States looked askance at standards prevalent among Italian personal leather goods' workers—it might be appropriate for GATT to call in the ILO—International Labor Organization—to prepare a factual report on the labor situation in the exporting country's industry.

We are not suggesting sanctions, nor would we urge Congress to embark on such a drastic course of action. However, there would be, if properly conceived and directed, the moral pressure under international auspices for improvements of labor standards in exporting industries benefitting from expansion of their markets resulting from tariff concessions. We might note, in passing, that this concept of an annual review has been carried out in other international agencies, including GATT itself with respect to the so-called agricultural waivers.

Coterminous with this annual review there should be, in our estimate, a complaint machinery in the GATT available to industry and labor in member countries acting through their governments.

This procedure could take this form: Where the union and/or firms in the luggage industry in an importing country, such as the United States believed that they are faced by unfair competition based on unfair labor standards in the exporting country, let us say, Japanese wallets, they could ask the U.S. Government to take their complaint directly to the GATT. Under GATT auspices, there could then be direct confrontation between the exporting and importing country (involving, if possible and preferably, representatives of labor and industry in the two countries as well as representatives of government) in an international rather than bilateral setting.

The two countries, with the assistance of GATT, which might also consult with the ILO on the labor aspects of the problem, might come to an agreement. Such an accord could take the form, for example, of some temporary mechanism involving, perhaps, voluntary quotas imposed by the exporting country or an export tax or some other device intended to deal with the short-run problem. Or it might take the form of a decision that improvement should be made in the wage levels and working conditions in the exporting country in order to meet the problem. Or it is possible that there might be a combination of recommendations for both short-term and long-term action.

If the two parties with the assistance of the GATT and ILO could not come to an agreement, then the complaining party might bring the matter before the next regular session of GATT. In that case, GATT might recommend what action, if any, should be taken by the exporting country to correct the situation.

This stress on fair international labor standards is aimed at assuring that broadened trade opportunities for exporting countries are reflected in improved wages and labor conditions for workers in these countries, while at the same time the workers in the importing countries are not placed at a handicap in striving for improvements in their own standards, improvements which are predicated upon the continued health and prosperity of their industry. In other words, raising levels of wages and labor standards in exporting countries from unduly low levels will help to eliminate competitive advantages based on unfair labor conditions which curtail employment opportunities and depress labor standards in competing importing countries.

We are mindful, however, that the next round of tariff and trade negotiations will have to tackle a job more onerous and difficult than that involved in the process of cutting duties. And since this latter process took 3 years, we are entertaining no illusions that American proposals with respect to the elimination of nontariff obstacles to trade or the incorporation of fair international labor standards will be readily accepted.

V. RECOMMENDATIONS

Meanwhile, we are confronted with an immediate situation, one that involves a burden in maintaining the employment standards of our members. They are concerned, and understandably so, with the very real possibility that their jobs will be destroyed.

To prevent such destruction we urgently request that affirmative consideration be given to maintaining the level of imports at the level which now obtains. We do not look upon the imposition of quotas as the ideal solution, and we are not unmindful of the serious administrative difficulties involved in the implementation of such a quota.

Ideally, such quotas should be worked out on a bilateral basis, one that would permit our country to accommodate to the requirements of another country whose economy is geared to exporting handbags or luggage or personal leather goods. Such accommodation would establish reasonable limits for such exports within the framework of the current percentage of the domestic market. If the market continues to expand, as seems warranted in terms of the upward thrust of the economy and the increase in population, particularly the increase of women workers in the American work force, a fixed percentage would redound to the advantage of the exporting country in the sense that the market would be considerably greater.

If no consensus can be reached on bilateral quota arrangements, we would urge Congress to consider the adoption of import surcharges. Such surcharges would be imposed when imports in the three major categories of this industry—handbags, luggage, and personal leather goods—exceed the percentage of the domestic market which had obtained in 1967. Or, if figures would have to be developed in an industry where data in the past has not been as comprehensive as one would like, we could have a moving 3-year period, such as has already been suggested for other American industries adversely affected by the impact of imports. If 1968 surcharges be based on imports as a percentage of the American market in 1967 alone, the 1969 surcharges can be based on 1967 and 1968. At the end of each period there could be a reevaluation of the effect of such surcharges. For administrative purposes, each base period would end on June 30, with the annually revised surcharge becoming effective the following January 1.

Concretely, we would suggest a surcharge of 3 percent ad valorem for each percentage point by which imports of any particular item in this industry exceeds the base percentage of the current share of the domestic market in 1967 or in 1967–68, as we have noted above. The high point of such a charge would be 50 percent ad valorem.

We look upon this surcharge proposal as an emergency measure, and not as a form of permanent protection. Frankly, we feel that the establishment of machinery for fair international labor standards would be fairer and more equitable. But pending the development of the latter, we are inclined either to the bilateral quota arrangement or the surcharge proposal as a means of assuring that the jobs and standards of our members, and the economic viability of the industries on which they depend, will be adequately protected. The alternative, frankly, would be economic suicide, and our union has no intention of submitting passively to this process of destruction.

Thank you, gentlemen, for your consideration, Mr. Chairman, and members of the committee.

Mr. BURKE (presiding). Do you wish to make a statement?

Mr. WEISS. No, sir.

Mr. BURKE. Are there any questions?

There being no question, we wish to thank you for your testimony.

Mr. ZUKOWSKY. Thank you very much.

Mr. Burke. Our next witness will be Hon. George Richardson, of the New Jersey Legislature.

Is he here? Is Representative Richardson here?

The next industry will be the Rubber Footwear Industry, and our first witness is Mr. Mitchell J. Cooper.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, FOOTWEAR DIVISION, RUBBER MANUFACTURERS ASSOCIATION; ACCOMPANIED BY C. P. MacFADDEN, CHAIRMAN, P. G. BROWN, AND TOM NELLIGAN

Mr. Cooper. Thank you very much, Mr. Chairman. I am sensitive to the clock.

Mr. Burke. Will you identify yourself for the record, and then all your associates, and then you may proceed. I see you do have a prepared statement.

Mr. Cooper. It is brief, Mr. Chairman, and I will run through it, stressing only the points which I regard as particularly important.

My name is Mitchell Cooper, I am testifying as counsel for the footwear division of the Rubber Manufacturers Association, and the members of this division, whose names are appended to the statement.

I have with me today Mr. C. P. MacFadden, at the end of the table, who is chairman of the footwear division of the Rubber Manufacturers Association, and Mr. P. G. Brown and Mr. Tom Nelligan of Uniroyal.

The current rate of duty on rubber-soled footwear with fabric uppers is 20 percent, based on American selling price. Section 401(b) of H.R. 17551 would convert ASP to a rate of 20 percent plus $.25 a pair, but not less than 58 percent, based on foreign value, effective January 1, 1971. We support this provision.

As those of you know—and as I believe most of the other members of this committee know, Mr. Chairman—who have been exposed to the problems of this industry know, it is rather extraordinary for us to endorse a proposal of the executive branch affecting our products, and I am anxious that you fully understand both how we arrived at this turn of events and what the limitations of our endorsement are.

Nature of the industry and of its problems

I remind you that rubber footwear is a labor-intensive industry, with labor costs representing in excess of 50 percent of the total cost of production. It is a high wage industry, with average hourly earnings—including fringes—of close to $4. It is an industry which in recent years has witnessed a decline in both domestic consumption and shipments of waterproof footwear, a 1966 decline of 5 percent in domestic shipments of rubber-soled, fabric-upper footwear, and a 1967 decline of an additional 3 percent in such shipments. For the first 3 months of 1968 there has been a further decline of 5 percent. As shown on tables A and B attached hereto, a truly substantial and increasing share of our domestic market has been taken by producers in other countries, notably Japan, Formosa, and Korea.

In the last 2 years, incidentally, Formosa and Korea have been the principal beneficiaries of the increase in imports as a result of the fact that their costs are even lower than Japan's. Thus, whereas in 1965

81.4 percent of ASP canvas imports came from Japan and 8.6 percent from Formosa, in 1967, 67 percent came from Japan and 20.3 percent from Formosa. The average 1967 price of the imports from Japan was $0.78, whereas the average from Formosa was $0.52.

Our decline in shipments reflects itself in a decline in employment: The Bureau of Labor Statistics reported 24.5 thousand rubber footwear production workers in 1965, 23.6 thousand in 1966 and only 20.5 thousand in 1967, a decline of 4,000 in a period of from 1965 to 1967.

This is an industry which no longer has an export market, having lost it to low-cost producers in Japan.

Finally, we have submitted to the Office of the Special Representative for Trade Negotiations, on a confidential basis, financial statements which reveal the profitability of this industry to be, at best, marginal.

This, then, is the picture of an industry for whom ASP is alleged to have provided an undue amount of protection.

Setbacks during Kennedy round

A. CONVERSION OF ASP ON WATERPROOF FOOTWEAR

Let me next refresh your recollection of the battles we have fought and lost in the course of the Kennedy round. Our first setback resulted from the Customs Bureau's arbitrary ruling in 1962 which removed ASP from synthetic rubber waterproof footwear. When, in 1965, we persuaded the Senate Finance Committee to support the restoration of ASP to this footwear, spokesmen for the executive branch advised us, through the good offices of Senator Ribicoff, that if we would drop that effort and if we would also agree to give up ASP on natural rubber waterproof footwear, the administration would support a converted rate of 60 percent. We yielded, but to our shock, the executive branch changed its mind. As you know, the 60 percent emerged from the Congress as 37½ percent, effective December 1965. How have we fared since? Table A, attached to this testimony, tells the story: In 1966, domestic shipments reached their lowest level in 9 years; imports also dropped, but nevertheless, constituted 28.5 percent of domestic consumption. In 1967, domestic shipments dropped an additional 1.9 percent, whereas imports increased by 22.8 percent. The 1967 ratio of imports to domestic consumption was approximately 32 percent.

B. CHANGE OF TREASURY GUIDELINES FOR ASP ON FABRIC FOOTWEAR

Our next setback was when the Treasury Department, early in 1966, announced that it was changing its 30-year-old guidelines for determining the American selling price of rubber-soled footwear with fabric uppers, the kind of footwear involved in this bill, incidentally.

This change was tantamount to a 35-percent tariff cut, and was made without any examination of the economics of the domestic industry or the extent of import penetration, and without any reciprocal tariff cut by our trading partners. Table B, to which I referred a few moments ago, paints a depressing picture of what has happened to us since, and surely in large part because of, the Treasury's action: In 1966, domestic shipments fell markedly while imports reached new heights; indeed, such imports took 18.2 percent of the domestic market that year. In 1967, domestic shipments continued to decline, while imports continued to rise to an all-time high of 44,660,000 pairs or 23.1 percent of domestic consumption. All of this, mind you, under the supposedly prohibitive protective barrier of American selling price.

Just a word, if I may deviate from my testimony for a second, to point out that the imports tabled on table B are the official Bureau of Census canvas import figures. About 50 percent of those imports, in fact, come in under ASP. All of the domestic production comparable to the tariff schedule are shown, so you have total canvas, domestic production, total canvas imports, as reported by the Bureau of the Census, the official Government statistics. These figures are not ours, except insofar as the domestic production figures are reported by member companies of the RMA, nor are they adjusted by any fashion by us nor are they estimates. They are official Government figures.

The domestic industry has not taken the Treasury's arbitrary change in the guidelines lying down. We have challenged this action in the customs court, and the case has been called for trial. In addition, during the last session of Congress, you introduced Congressmen Burke and Monagan, among others, introduced bills designed to restore the old guidelines. These bills are now pending before this committee. A conversation of ASP under the old guidelines would produce a rate in excess of 95 percent; yet I remind you that under those guidelines the Japanese had no difficulty in capturing 17 percent of our domestic market.

Now there is a rather important matter, Mr. Chairman and members of the committee, which came to my attention just awhile ago when I had any opportunity to look at the testimony that the importers are about to give you.

If I can do so, I would like to call your attention to the table on page 6 of the importers testimony. That table, according to the importers, as appears on the bottom of page 5 of their testimony, is designed to put forward—

They say: "For explanation of further data in its preliminary report, the Tariff Commission had furnished to interested parties data set forth in the table which follows."

That table appears on page 6 of the importers testimony. Unfortunately, however, it is an extract from the table which the Tariff Commission actually provided to the parties, and I am going to ask Mr. MacFadden to make available to the committee the actual table provided by the Tariff Commission staff to all of the interested parties. The reason why this is important at this point is that the difference beween the table actually provided by the Tariff Commission staff and the table which appears on page 6 of the importers' testimony is as follows: The heading, instead of "Under New Guidelines," should be "Under New Guidelines and Old Guidelines," and you will notice that there is a column at the end of the table which shows ratio of calculated duty to export value, under the old guidelines, in the Tariff Commission report, as well as under the new, and this is particularly important in view of the fact that among the bills pending before this committee are the Burke and Monagan bills, and I do want to point out to you that under the old guidelines, the figures are not 50.8 percent, et cetera, but rather 78.1, 100.5, 96, 120, for an average of

95.1 percent, instead of the figures which appear on the table of page 6 of the importers' brief.

Those figures are correct in the importers' brief, but only insofar as they go. These are of particularly importance to us, because of the charges that have been made, that the changing guidelines did supposedly not effectuate a 35 percent cut in the tariff.

The Tariff Commission's own figures, I think, should make that issue a closed one, and the result of it very clear indeed.

(The table referred to follows:)

FOOTWEAR DUTIABLE ON THE BASIS OF THE AMERICAN SELLING PRICE, ITEM 700.60: RATIO OF CALCULATED DUTY TO EXPORT VALUE, BY TYPE OF FOOTWEAR, UNDER "NEW" GUIDELINES AND "OLD" GUIDLINES, BASED ON A SAMPLE OF IMPORTS IN 1965

Type of footwear	Quantity (thousand pairs)	Value		Unit value		Ratio of calculated duty to export value	
		Export (thousand dollars)	New ASP (thousand dollars)	Export	New ASP	New (percent)	Old (percent)
For men	1,112	1,072	2,726	$0.96	$2.45	50.8	78.1
For youths and boys	1,552	1,096	3,317	.71	2.14	60.5	100.5
For women and misses	3,366	1,831	5,526	.54	1.64	60.3	96.0
For infants and children	1,098	437	1,626	.40	1.48	74.4	120.0
Total or average	7,128	4,436	13,195	.62	1.85	59.5	95.1

Effect of Kennedy Round Negotiations on Rubber Footwear

Mr. COOPER. If I may return to my testimony, I would like to say that what I have said thus far summarized the broad context in which we urged Ambassador Roth and his colleagues to reserve both waterproof and canvas footwear from any cut in the Kennedy round.

In the course of a half-dozen hearings before the Tariff Commission and the trade information committee—and I might say this industry has been almost literally heard to death by the Tariff Commission. We have investigated and reinvestigated, and investigated once again. In the course of all of these hearings, we presented detailed financial, production, employment and import statistics, demonstrating the need for retention of existing rates and the ASP method of valuation. We disputed the Tariff Commission's recommended conversion of our ASP rate to a rate of 58 percent based on foreign value, and we demonstrated that such a conversion would provide less protection than our current 20 percent ASP. We pointed out that this industry has no export market and that the negotiation of ASP could not be accompanied by a reciprocal quid pro quo of any benefit to us. In the alternative we argued that, if ASP were negotiated, the industry should be given ample time to adjust to the change, that account should be taken of the marked increase in imports since 1965 from countries with costs even lower than Japan's (for example, Formosa and Korea), and that consideration should be given to the fact that new styles and products would not get the benefit of converted ASP rates.

The office of the special representative and all of the other interested Government agencies subjected the arguments and the statistics which both we and the importers presented to a thorough sifting and probing, and I think that is an understatement of the case. The result was that both waterproof and canvas footwear emerged from the

Kennedy round with no further tariff cuts, and no agreement was negotiated to remove ASP from canvas footwear.

Basis of our support for section 401(b) of H.R. 17551

While section 401(b) of the administration bill does provide for the conversion of ASP, it also takes account of the industry's arguments, and particularly of our plea for adequate time to adjust and for recognition of the recent imports from countries with costs even lower than Japan's. It is for this reason that we support it. I am frank to say that we are also supporting this bill because we no longer wish to be in a position of fighting to retain a valuation method which on the one hand our Government and its principal trading partners have condemned as anachronistic, unduly difficult to administer, and uniquely protective, but which on the other hand has proved to be an ineffective barrier to a steadily mounting volume of imports.

Let me stress that this bill will not solve our import problems. We are hopeful, however, that, by giving us time to deal with those problems, and by providing a conversion which uses the Tariff Commission's 58 percent as a floor to the 20 percent plus $0.25 a pair, we will have a reasonable chance to adapt to the even more difficult competitive conditions which the contemplated elimination of ASP will create.

We are not seeking a legislative panacea, nor are we prepared to accept the extinction of our industry. The industry is investing in plant modernization, including new methods of production. In addition, we are working with the Commerce Department in an effort to redevelop an export market for our products. We have a reasonable amount of confidence that a combination of our own efforts and the provisions of section 401(b) will, in time, result in a lowering of the competitive odds against domestic producers of rubber footwear.

Conclusion

In short, we are prepared to accept the administration's proposal for a conversion from ASP, but we hasten to add that if our economic prospects fail to improve, it is possible that we will be back here seeking an import quota. In this regard, I would like to call your attention to a statement we submitted to the Senate Finance Committee at the time of its October 1967, hearings on quota legislation. At that time we disavowed any present intention of seeking quota relief, but we said that it might be necessary to do so under any of the following circumstances:

1. If the Congress rejects the rubber footwear section of the administration's trade bill, and if it then converts ASP at a lower rate and at an earlier date;
2. If we are wrong in our judgment that, given time, the quality of our products will win out over the cutrate prices of our import competition; and/or
3. If Congress decides to legislate quotas for industries whose production, financial, export and import statistics are less discouraging than our own.

Because section 401(b) is a constructive approach to an extremely difficult problem, we support its enactment, and we hope and pray that we can live with it.

(The documents referred to follow:)

TABLE A.—WATERPROOF FOOTWEAR SHIPMENTS, IMPORTS, EXPORTS, APPARENT CONSUMPTION, AND RATIOS, 1958-67

[Thousand pairs]

Year	Shipments	Imports	Percent imports to shipments	Exports	Apparent consumption	Percent imports to consumption
1958	29,492	2,365	8.0	50	31,807	7.4
1959	30,036	7,875	26.2	53	37,858	20.8
1960	27,511	12,015	43.7	33	39,493	30.4
1961	28,597	8,352	29.2	32	36,917	22.6
1962	27,463	12,510	45.6	35	39,938	31.3
1963	23,200	12,819	55.3	32	35,987	35.6
1964	23,282	11,326	48.6	34	34,574	32.8
1965	23,393	12,448	53.2	25	35,816	34.8
1966	22,522	8,982	39.9	36	31,468	28.5
1967	22,093	10,576	47.9	32	32,637	32.4

Source: Bureau of the Census and Rubber Manufacturers Association, Inc.

TABLE B.—RUBBER-SOLED, CANVAS-UPPER FOOTWEAR—SHIPMENTS, IMPORTS, EXPORTS, APPARENT CONSUMPTION, AND RATIOS, 1947-67

[In thousands of pairs]

Year	Shipments	Imports	Percent imports to shipments	Exports	Apparent consumption	Percent imports to consumption
1947	22,900	1,345	5.9	1,191	23,054	5.8
1954	51,000	40	.08	147	50,893	.08
1958	70,000	3,248	4.6	122	73,126	4.4
1959	75,000	12,614	16.8	98	87,516	14.4
1960	84,000	30,435	36.2	69	114,366	26.6
1961	103,000	28,476	27.6	94	131,392	21.7
1962	136,000	29,225	21.5	82	165,143	17.7
1963	147,813	28,676	19.4	130	176,359	16.3
1964	162,151	29,063	17.9	225	190,989	15.2
1965	165,741	33,363	20.2	195	198,909	16.8
1966	157,388	35,060	22.3	167	192,281	18.2
1967	150,694	44,659	29.8	211	195,142	23.1

Source: Bureau of the Census and Rubber Manufacturers Association, Inc.

MEMBERS OF THE FOOTWEAR DIVISION, RUBBER MANUFACTURERS ASSOCIATION

Bata Shoe Co., Belcamp, Md.
Bristol Manufacturing Corp., Bristol, R.I.
Cambridge Rubber Co., Cambridge, Mass.
Converse Rubber Co., Malden, Mass.
Endicott Johnson Corp., Johnson City, N.Y.
B. F. Goodrich Footwear Co., Watertown, Mass.
Goodyear Rubber Co., Boston, Mass.
LaCrosse Rubber Mills, LaCrosse, Wis.
Servus Rubber Co., Rock Island, Ill.
Tingley Rubber Co., South Plainfield, N.J.
Uniroyal, Inc., New York, N.Y.

Mr. COOPER. And if I may just add a footnote or two to what I have said, Mr. Chairman, in light of the testimony that you will shortly be hearing, I do want to point out what I think members of this committee know; namely, that the nature of the American selling price is such that it is impossible to make either a scientific conversion or a conversion that is in fact valid for longer than the day on which it is made.

One of the virtues of the system is that it has a built-in stabilizer of benefit to both parties, for ASP automatically takes into account price changes here and abroad. This was one reason we strongly opened the whole conversion exercise in which the Tariff Commission engaged.

Second, I do want to point out that we have consistently argued that since, unlike the chemical industry, for example, we have no export market, and since we, therefore, could get no concessions from the Japanese in return for the elimination of ASP, certainly no concessions of specific benefit to the rubber footwear industry, that if ASP is in fact as protective as it is alleged to be, surely its elimination must be worth something, and the only something that could be paid for its elimination would be some form of arithmetic conversion, which would, in effect, add tariff points, and would in effect compensate for ASP's alleged inherent protective effect.

The formula proposed by the administration, unfortunately, does not do that. I am suggesting, however, if any arrangements are put forward to this committee to the effect that the passage of time either has or will work to the disadvantage of the Japanese, for example, then perhaps the time will come, willienillie, when the conversion of this formula may result in the addition of points of compensate for the actual loss of ASP, and finally, according to the Tariff Commission itself, the Treasury's change to ASP guidlines amounted to a tariff cut of 35 percent.

The Burke and Monagan bills to restore the old guidlines are pending before you.

We hope that you are going to act favorably on those bills. If you do not, we at the very least hope that you will not hurt us further by whittling away at the provision in the administration bill designed to convert ASP for footwear.

Thank you very much for your indulgence.

Mr. BURKE. Thank you. Do any of the other gentlemen want to make statements?

Mr. NELLIGAN. No.

Mr. BURKE. The principal supplying countries on these products are Japan, Taiwan, and Hong Kong; is that correct?

Mr. COOPER. No, Mr. Chairman, Japan, Taiwan, and Korea, really.

Mr. BURKE. Korea?

Mr. COOPER. Yes.

Mr. BURKE. You mentioned that you didn't expect Japan would grant any concessions in return for the elimination of the ASP in rubber footwear. What about other countries? Do you think that they might grant any concessions?

Mr. COOPER. Well, the fact is that no concessions were offered, apparently—at least none sufficiently attractive to the special representative in the course of the Kennedy round, to result in an agreement for the elimination of ASP.

The fact further is that even were these countries willing to offer concessions, they would have to be on products obviously other than of interest to these in this industry, since we have no export market.

One of the commitments which—public commitments; there is no secret about this—which Ambassador Roth made in the course of negotiations of chemical ASP was that at least part of the quid pro quo which other countries would have to give for the elimination of ASP on chemicals would have to be tariff concessions of direct benefit to the chemical industry, since the chemical industry presumably would be giving up something, in giving up ASP, Ambassador Roth recognized, and I think everybody else recognizes, that no such quid pro quo would be offered to the rubber footwear industry, because we don't sell abroad. We can't.

Mr. BURKE. According to the figures here of the Department of Commerce, they are virtually—no——

Mr. COOPER. They are virtually meaningless, Mr. Chairman.

Mr. BURKE. Balance of imports.

Mr. COOPER. I might point out that at one time, about 20 percent of the production of this industry went abroad, but that market has been taken over principally by the Japanese.

Mr. BURKE. Are there any further questions?

We wish to thank you gentlemen for your presentation.

Mr. COOPER. Thank you very much.

Mr. BURKE. The next witness is Mr. Noel Hemmendinger.

If you identify yourself for the record, you may proceed with your testimony, and also please identify your associate.

STATEMENT OF NOEL HEMMENDINGER, COUNSEL, IMPORTED FOOTWEAR GROUP, AMERICAN IMPORTERS ASSOCIATION; ACCOMPANIED BY EDWARD LIPKOWITZ, CHAIRMAN

Mr. HEMMENDINGER. Mr. Chairman, I am Noel Hemmendinger of the Washington law firm of Stitt, Hemmendinger, and Kennedy. I represent the Imported Footwear Group of the American Importers Association of New York.

I have with me Mr. Edward Lipkowitz, who is chairman of the Imported Footwear Group.

I feel that I have quite a challenge here this afternoon, at 5 o'clock, after a long day. I admire the patience of the committee members who are here, and I will try hard to hold your interest, in what for me, for some 10 years, has been an extremely fascinating subject. There are those who don't share my enthusiam, however.

I want to suggest that this is, while not the most important in amount of trade, perhaps the most extradordinary particular subject that this committee may have to consider in the course of all these hearings.

My friend, Mr. Cooper, put his finger on one reason for that, when he himself suggested that it was extraordinary for his group to be supporting a proposal of the administration in the trade field. It is truly extraordinary, and the reason they favor it is that the proposal unduly favors the domestic rubber footwear industry. The reason that it unduly favors the industry is, I have to suggest, that the administration is prepared to pay an unfair price for the support of this industry, lest it jeopardize the whole chemicals package on ASP, with which it has very little connection.

In short, it is the politics of ASP that leads a proposal to be made by the administration which is demonstrably unfair and extraordinary.

It is extraordinary because it is a tariff-increasing proposal, arising out of the Kennedy round, which was a tariff-reducing exercise, and because it is in favor of an industry which already enjoys and has enjoyed the most, I suggest, the most extraordinarily favored treatment of any industry in the history of the American tariff laws since the American selling price duties were put into effect by proclamation of President Hoover in 1933.

Now, the administration has its reasons, which it is for the administration to explain.

The importers strongly object to having their interest sacrificed to an interest in an entirely unrelated area of the trade field.

In the absence of any real explanation of this proposal by either the administration or my friends on the other side, I am afraid I shall have to ask your patience to go rather deeply into the mechanics and the arithmetic of ASP on rubber footwear.

In the brief which—I call it a brief, gentlemen, but it is entitled "a statement." But truly, I have submitted to you a lawyer's brief. There is no unnecessary verbiage in it. I hope that some members of the committee will have the time and the patience to read it with care.

I am going to take you through it briefly, in deference to the fact that time is limited.

The first and basic historical position of the importers is that ASP really ought to be abolished, without increasing the nominal rate of duty at all. In all candor, we don't expect this committee to accept this position.

There is too much history, but we do say that it is seriously advanced, and to understand why it is seriously advanced, and perhaps a good deal else on the subject, I should like to ask you to cast your eyes on our attachment 5, at the last two pages of our statement, which is simply the tariff schedule of the United States as related to footwear, and there you see the gamut of the rates, effective January 1, 1968, where with one possible exception, they run up to 20 percent, 22 percent, 25 percent as a maximum.

Most of them are in the area of under 10 percent, and under 20 percent, for men's and for women's respectively.

You have those footwear rates, and then you have item 700.60, and I want to call to your attention that 700.60 doesn't say anything about rubber-soled footwear with fabric uppers. It says "other"—20 percent ad valorem on the American selling price

Now, you had discussion from Mr. Cooper, based upon the Tariff Commission's study in 1965, whether the true average for that is 58 percent or the true average for that is 90 percent, depending on whether the old practice or the present practice of the Cusoms Bureau is followed.

But consider the implications of rates of 58 percent on the average, and the average means a lot of them are much higher than 58 percent, for a product which is another footwear product. It involves a great deal of hand labor, it is not all that different from a great many other products of the footwear industry.

You put it in the oven at the end of the line, and that is the most important difference. It involves rubber, but the rest of the footwear industry uses a great deal of rubber and plastic, too.

This is a real anomaly, gentlemen; and, therefore, it is quite reasonable to say that if it had been done under the escape clause, this high rate of protection would long since have been lost, and abandoned along with the other rates.

Now, importers were extremely disappointed that the Geneva negotiations in May of 1967 did not lead to any reduction in the rate. We don't know exactly why, but we conjecture that for the same reasons that it is doing so before this committee, the administration put on the table at Geneva an entirely unacceptable proposal, which instead of reducing the effective level of protection, or maintaining the effective level of protection, increased it.

On behalf of importers, I opposed that at the time, and I can well conjecture that the Japanese negotiators could well have rejected it for the same reasons.

Now, notwithstanding the view just stated, we hold that the effective protection can and still should be reduced; because with some amendment, it is perfectly possible for you to pass a bill which will permit an agreement to be entered into which not only converts but reduces, as was done on chemicals, and this is the logical thing which we commend to you. In any case, if worst comes to worst, importers say "You can't and should not abandon the sound principle that if there is no ground for reduction, then the conversion should be made on the basis of the existing level of protection, at a date as close as is reasonably possible to the date of conversion, as found by an impartial body."

The proposal which you have before you does not do that, and neither the administration nor my friends from the American industry have explained why it doesn't.

It is a tariff-increasing proposal, which appears to use some of the data from the Tariff Commission's 1966 Report, based upon 1965 data; but uses the entirely impermissible device of taking 58 percent, representing a weighted average of all the footwear in the ASP category, and then doing something which we have to deduce, but which the table is here to show, figuring out that a compound rate would have some of the characteristics of the ASP system, and that a compound rate can be devised which is equal in its effect to the 58 or 60 percent rate, and adding such a compound rate.

Now, actually, 20 percent plus $0.25 a pair, again on the 1965 sample—and another year could be very different—on that 1965 sample, the mathematics are that it comes out at 60.3 percent. And if you are aiming at 58 percent, you can use $0.24, plus 20 percent.

So there is a fair choice there. The importers whom I represent oppose the compound rate, because they think that it involves some of the inequities of the ASP system, and because it is unduly complicated.

But I say it is a fair choice. The mathematics are equal. But to take them both, to say it shall be 20 percent plus $0.25 a pair with a minimum of 58, is just intellectual legerdemain. It is making it look like the Tariff Commission's proposal, and it is increasing the rate, effective rate, well above the proposal.

This proposal—which I conjecture, because I can't know this was worked out with the RMA—as something that they would buy, let's them have their cake and eat it, too, in about three different respects. It will convert only in 1971, three years from now, but it uses a minimum, based upon a study made in 1965, instead of saying, "Let's have another study before 1971."

It uses this double-barreled rate, in order to make sure that nothing goes below the average, and yet that for many products, they are denied the benefit of the averaging; and finally, it accepts the Tariff Commission's nomenclature, when it denies the Tariff Commission's report on the rate, when the nomenclature as we shall show is in itself defective.

Our suggestion, very simply, is that you leave it open. The proposal is that an agreement be entered into, that the President be authorized to enter into an agreement.

All right, give him the authority to enter into an agreement. We certainly think it is high time that ASP was abolished—there is a fortunate apparent unanimity about that question—but authorize it to be done on the basis of an objective Tariff Commission study. Let the President go back to the Tariff Commission, if the negotiations brings to light objections which he feels have weight; because I have great respect for the work that the Tariff Commission does, but very few gentlemen up here think that its reports are always the last word.

Now, I come to the point which Mr. Cooper discussed at considerable length, because it is his real argument, and an argument which was intimated at least by the STR statement of June 5, for raising the rate, and that is this proposition that the so-called new customs guidelines—they are now old customs guidelines, because they have been in-effect since the first of 1966—somehow did the American industry a great injustice.

I think it is important to explain to this committee just what those guidelines did. It has never been the practice of the Customs Bureau, and I have this on direct statement, years back, from high officials of the Bureau in Washington, to tell the appraisers what to do.

The appraisers had the responsibility, prior to the new guidelines. The appraisers were never told to pick the highest priced American products. As a matter of convenience, going back to the days when there were only a few products in the market, the appraisers did tend to use the high prices at which Hood-Goodrich, as it was then, and U.S. Rubber, offered their standard products to anybody who came off the street to buy a half dozen boxes of shoes.

They were actually selling many shoes at much lower prices. We complained about this, representatives of importers complained about this to the Bureau bitterly, and finally, the Bureau launched an investigation in the first part of 1963, the consequence of which was that it concluded that the practice was in error, that in fact, there were comparable, similar products being offered at lower prices, and then the guideline, which I suggest to you in fairness nobody could possibly reject, was given, that in trying to find the American shoe, they should first pick the shoe most similar in physical characteristics.

And then, if they found shoes equally similar to physical characteristics, they should take the shoe closest in price, not lowest, although it might very well be lowest, but closest in price. This is the guideline to appraisers. Now, a case was tried in New York within the last week, in which the RMA is attacking that in the Customs Court, and in order to win, they have to prove as a matter of law that the appraisers have to take the highest priced similar product.

Well, they don't have a chance, gentlemen. That is it. I offer that as a lawyer's judgment. And they have been making much of what was really an abuse over many years by the customs.

Now, they say that they actually enjoyed this practice, this high rate of 90 percent. The Tariff Commission found that if the principles that the appraisers had tended to use were applied to the sample, that the average would have been closer to 90 percent than to 60 percent.

But it is not a fact that the majority of shoes ever did enter at those rates, because high duties of that character invited utmost efforts to bring shoes in at a better rate, and up to 40 percent before the new tariff schedules were adopted in 1960, up to 40 percent of the imports, entered for one reason or another at low duties.

The new guidelines—let me bring out this point more clearly. The new guidelines for practical purposes went into effect in 1963, because as soon as the customs suspended appraisement, the importers were forced to guess at the duty in order to price their goods into the market.

Fortunately, they guessed with some accuracy, and if you will look at the table which is set forth at page 10–A of my statement, which is based upon the table set forth in the STR statement and the table set forth in the RMA statement, but which represents adjusted figures, you will see that during the very period when the new guidelines were for practical commercial purposes first in effect, in 1963, 1964, and 1965, the American production constantly increased, and I think reached its alltime high, and during those same years, on a corrected basis, the imports were declining.

So that the idea that the domestic industry actually had this protection, and has an equity in enjoying it is simply not in conformity with the facts.

Now, while I am discussing that table, let me explain a little further why one can't use the Census Bureau's figures which Mr. Cooper refers to as if calling them Census Bureau figures made them relevant.

The Census Bureau figures for imports, since 1963, stand for one word, "other," and the fact that somebody puts a statistical annotation next to it doesn't mean anything for anybody who is willing and able to look into it more closely.

Even on the statistical annotations, for the last 3 years, the statistics show that approximately one-half of the imports under 700.60 have come in without being assessed on the American selling price. I am going to give you an idea.

Gentlemen, there are some of Mr. Cooper's sneakers. These are miscellaneous products, practically all of them of vinyl, that for one reason or another do not enter under the normal item number of the tariff schedules which would be 700.55 at 11 percent. Because of the complexity of the tariff schedules, which are explained in great length in my brief, and which I regret I don't have time to go into now, these are classified under 700.60.

Because they are not similar to any American product, they are not assessed on the American selling price. They do pay duty at 20 percent. This problem was exposed before the Tariff Commission, in much the same way that we are exposing it to you.

In recognition of it, a rather complex definition was adopted by the Tariff Commission, which you see set forth at page 5 of my statement. The Tariff Commission description kept at 20 percent footwear with open heels and toes, footwear with pliant soles and uppers, which—well, folding slippers, and several other categories.

But I am going to ask Mr. Lipkowitz to draw your attention to certain categories which would not be taken care of by the definition of the Tariff Commission, and this is why I say with all respect to the Commission, it is fortunate that the legislation contemplates an agreement and gives an opportunity for a further examination of this question, and it is not necessary for this committee to freeze into the law a Tariff Commission nomenclature which is improper.

The ones which would be prohibited in commerce under this definition, because of the high duty, are the ones that have closed toes, and closed heels.

I have one here, for instance.

Mr. Lipkowitz is showing you some others. The ones with open toes and open heels would be taken care of. The ones that happen to have the toe closed or the heel closed, or both, would not be taken care of.

Another category is the boot, the snow boot with a cuff of textile, in front of Mr. Byrnes, which happens to be more than 10 percent of the surface of the upper.

Another one is, another such category I have in my hand is a shoe which happens to have a foxing, although it has a rubber or plastic sole, and a plastic upper, and doesn't resemble a sneaker in the slightest.

Gentlemen, I would like to return briefly to the table at page 10–A to point out that when the adjusted figures are used, so-called import penetration is 13 percent of consumption, not 23 percent, and is about half what it was in the years 1961, 1962, and 1963.

These figures, as I freely state, involve estimations. I also assert, very confidently, that they are more accurate figures than the figures which have been presented to you by others. The report is out of date, gentlemen, for another important reason, and that is that the price trends—I am referring you now to page 11 of my statement—the price trends are that the price, the f.o.b. price of imports are increasing, and have been for many years, more rapidly than the price of the domestic products, and if you will review in your mind the mathematics of the conversion you will realize that it involves essentially an equation between a domestic price and an f.o.b. importing price, it is that price relationship which is constantly shifting, and if foreign prices are going up faster than domestic prices, then it is to the interests of the domestic industry to freeze the rate on the past historical experience, so they want to freeze the high 58-percent rate, and yet they want to put it off 3 years, and they want a formula which gives them the benefit of a much higher compound rate on some products.

The later data will undoubtedly show a rate much lower than 58 percent, and that the fair way to do this is to authorize a further study.

Another important point, at page 13 of my statement, is that some account must be taken of the existence of machine-made sneakers, and incidentally, this is the reason for the decline in labor in the American industry—that shoes are now being produced to a very large extent in the United States by new methods, which do not involve hand assembly.

You take the upper, and you put it in a machine, and bang, bang, bang, out come the shoes, finished, molded to the sole, the sole molded to the upper in one operation. This is a capital-intensive operation, which is, therefore, economic in the United States, and the imports made on this process are not entering, because it costs as much or more to do it abroad as it does here.

It is obviously a labor-saving technique, and the inexpensive products in the American market, very beautiful products, are mostly made on this system today.

We conclude that the bill before you, section 401(b) of H.R. 17551, should be approved, with an amendment not to tie the hands of the U.S. negotiators, but to base it entirely on a new report of the Tariff Commission, both as to nomenclature and as to rate, and to permit a possibility of a reduction, if that can be negotiated, under the principles of the Trade Expansion Act with reciprocity.

Thank you very much for your patience.

(Mr. Hemmendinger's prepared statement follows:)

STATEMENT OF NOEL HEMMENDINGER, COUNSEL, IMPORTED FOOTWEAR GROUP, AMERICAN IMPORTERS ASSOCIATION

The Imported Footwear Group of the American Importers Association (formerly the National Council of American Importers) comprises most of the importers of footwear classified under Item 700.60 of the TSUS, which is the subject of Section 401(b) of H.R. 17551.

WHY ASP SHOULD BE ABOLISHED

Importers of rubber footwear have long maintained that the ASP method of valuation, which values the imports not on their own value but on the value of "similar" American products, is wrong and unfair. They strongly advocate its abolition. They endorse the position taken by Ambassador Roth in his statement to the Ways and Means Committee on June 5, 1968, in which he detailed the objections to ASP valuation as applied to chemicals. The general objections to ASP on chemicals there set forth are equally applicable to footwear.

Several of these points are readily documented from the current experience of the footwear importers. The extraordinary level of the tariff protection afforded by nominal duties of 20% under Item 700.60 of the Tariff Schedules is indicated by the Tariff Commission's study made in 1966, showing average duties of 60%. Duties on particular products went much higher, even 100%. These are to be compared with duties of from 10 to 20% on major classes of other footwear, duties which (unlike ASP footwear), were further reduced in the Kennedy round.

The hazards arising from uncertainty of ASP duties are illustrated by the fact that since 1962 appraisement on the American selling price has been suspended more than half the time while the Customs Service has investigated to determine the correct prices to be applied. Appraisement is even now suspended, since January 1, 1968, because of price increases announced by some of the American makers and the necessity to again determine the true prices under the statutory standards of Section 402a of the Tariff Act of 1930. Every time appraisement is suspended, importers are forced to do business on the basis of guesswork as to what duties will apply.

It has always been the position of the American importers that the United States Government should remove this extraordinary and inequitable method of valuation in the interest of the import trade of the United States, in the same way that the United States Government has acted from time to time to remove other unnecessary obstacles to the importation of goods.

Similarly, the importers have always maintained and continue to maintain that the ASP method of valuation should be removed and articles valued on the normal basis without any upward change in the 20% statutory rate. This position has been asserted in all seriousness. The ASP duties on footwear result from the obsolete Section 336 of the Tariff Act of 1930, the so-called equalization of cost of production provision. Most of the duties that were fixed under Section 336 were ordinary duties in form and have long since been reduced in the course of trade agreements and absorbed into the general body of the American tariffs. If the ASP duties had been increased under the escape clause, there would long since have been a review and in all likelihood a restoration of the lower duties.

In the Tariff Act of 1930, the Congress enacted a rate of 35% for footwear with uppers of various fibers and soles of various materials, including rubber and leather. Subsequently, this rate was reduced to 20% in the Trade Agreement of 1955. Thus, the duty today on articles imported under Item 700.60 has the same historical basis as articles imported under Item 700.65, for instance, which covers footwear with leather soles and fiber uppers dutiable at 20% on the usual valuation basis. A glance through the entire footwear schedule of the TSUS shows that before January 1, 1968, the rates of duty on footwear ranged from 5 to 25% ad valorem with the great bulk of the imports at rates of 10 and 20%, on the usual valuation basis, and they were reduced in the Kennedy Round.

Importers were extremely disappointed that the negotiations in Geneva in May, 1967, did not lead to any agreement relating to ASP footwear although agreements were reached relating to all other products subject to ASP valuation. They do not know all of the circumstances, but they believe the main reason that no agreement was reached was an unduly rigid position on the part of the United States negotiators, who were in effect demanding a rate that would have meant a significant increase in actual duties paid. This is in strange contrast to all else that was done in the Kennedy Round, the object of which was the reciprocal reduction of duties. A negotiated conversion and duty reduction, as in the case of chemicals, is still possible.

Nothwithstanding the views expressed above, importers would make some sacrifice to get rid of this system and would be willing to see ASP removed on the basis of a rate which fairly reflected the actual experience during a period as near as is reasonable possible to the effective date of the converted rate. Unfortunately, that is not possible under the terms of the proposed legislation now before the Congress.

THE ADMINISTRATION PROPOSAL

Section 401(b) of H.R. 17551 would provide:

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

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

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

IMPORTERS' POSITION

Authorization to enter into a new negotiation should provide for the possibility of reducing the extraordinary ASP protection, at least if reciprocal concessions are offered by the principal suppliers.

At the very minimum, the law should authorize conversion at a rate of duty that is found to reflect the actual experience, to the extent reasonably possible, during a period close to the effective date.

THE TARIFF COMMISSION REPORT

The Tariff Commission was asked in 1966 to conduct an investigation to determine

> "those rates of duty for the aforementioned products which, in the absence of headnote provisions cited above, would in the judgment of the Commission have provided an amount of collected duty on imports of such products during a recent period substantially equivalent to that amount provided under such headnote provisions (or predecessor provisions) in such period. The Commission is asked to determine these rates of duty in accordance with sound standards of tariff nomenclature and to indicate its assessment of the degree of equivalency of protection achieved."

The Commission duly reported (Report 332–47) the following descriptions and rates as meeting the standards laid down for the investigation, representing a division into two parts of the present item 700.60:

Class	Description	Converted rates of duty
700.60A	Footwear with open heels and toes; footwear with pliant soles and uppers which when off the foot, characteristically fold flat from heel to toe; and footwear with outer soles almost wholly of leather or the soles of which contain not less than 60 percent by weight of iron powder	20 percent ad valorem.
700.60B	Other	58 percent ad valorem.

The final report reflected certain modifications of the Tariff Commission's preliminary report, chiefly a reduction from 60% to 58% to take account of a number of products (discussed further below) which are not now actually assessed on the ASP but enter under Item 700.60.

Asked for further data in explanation of its preliminary report the Tariff Commission had furnished to interested parties data set forth in the table which follows.

U.S. TARIFF COMMISSION

FOOTWEAR DUTIABLE ON THE BASIS OF THE AMERICAN SELLING PRICE, ITEM 700.60; RATIO OF CALCULATED DUTY TO EXPORT VALUE, BY TYPE OF FOOTWEAR, UNDER NEW GUIDELINES, BASED ON A SAMPLE OF IMPORTS IN 1965

Type of footwear	Quantity (thousand pairs)	Value		Unit value		Ratio of calculated duty to export value (percent)
		Export (thousands)	New ASP (thousands)	Export	New ASP	
For men	1,112	$1,072	$2,726	$0.96	$2.45	50.8
For youths and boys	1,552	1,096	3,217	.71	2.14	60.5
For women and misses	3,366	1,831	5,526	.54	1.64	60.3
For infants and children	1,098	437	1,626	.40	1.48	74.4
Total or average	7,128	4,436	13,195	.62	1.85	59.5

This is based upon a machine tabulation of actual invoices examined by the Tariff Commission covering 7 million pairs imported in 1965.

The Tariff Commission report contained no discussion of the variety of rates of duty that might reflect its statistical findings, but simply reported 58% ad valorem as the rate on the export value which met the terms of the request made to it.

The proposed double-barreled rate is without justification

It will be observed that the Tariff Commission's finding of an *average* rate of 58% has somehow become a *minimum* in the legislative proposal which the Administration has put before the Committee, and that something new has been added, namely, a compound rate of 25 cents per pair plus 20% ad valorem. (A compound rate combines a specific rate with an ad valorem rate.)

If this compound rate of 25 cents plus 20% were applied to the Tariff Commission's 1965 sample, the average percentages on the export value basis and the average actual duties would be as follows:

Type of footwear	25 cents per pair, plus 20 percent Percent	Average duty
For men	46.0	$0.44
For youths and boys	55.2	.39
For women and misses	66.3	.36
For infants and children	82.5	.33
Weighted average	60.3	.37

The range of equivalent percentages on the export value results from the fact that in some categories the average price of the imports f.o.b. the foreign factory was about half the price of the American articles selected as the basis for duty, and for other categories about one-quarter. Actually such average figures for particular categories conceal much more information than they reveal, because the average may itself reflect a wide range, and the variation may be in the ASP's rather than the imported article. A similar table for another time period might be considerably different. Frequently, in the application of the ASP system, the American shoe selected is of a much higher quality than the import and far higher than the price at which a truly comparable American-made shoe would sell.

For instance, some handmade built-up imported sneakers are being valued on the basis of handmade built-up domestic shoes of much heavier materials, although they compete with machine-made American sneakers, the soles of which are molded to the uppers in a single operation.

Therefore, a fair and reasonable basis for conversion would ignore the rate vagaries that result from the ASP system and pick a rate based on truly comparable products, in terms both of construction and a place in the market.

In the view of importers, such a rate should be a single *ad valorem* rate. They believe that a compound rate would continue some of the inequities of the ASP system and would be more complex to administer. Since, like the ASP system, compound rates have a specific element, they operate more like ASP rates than do simple ad valorem rates. In other words, under both ASP and compound rates, the lowest priced imports, relatively to the prices of American-made shoes, pay the highest duty on a converted equivalent basis. As foreign prices increase relatively to U.S. prices, the converted equivalents fall. Conversely, if U.S. prices rose faster than foreign prices, the converted equivalents would rise. (As indicated below, this is not likely over any period.)

We therefore suppose that the compound rate of 25 cents per pair plus 20 percent was selected as a rate that, applied to the Tariff Commission's 1965 sample, would produce collected duty approximately equal to the ASP rates, and would have some of the characteristics of ASP rates. Actually, a compound rate of 24 cents plus 20 percent would average out at 58 percent and thus would be closer to the Tariff Commission's finding.

But to adopt both a simple ad valorem rate and a compound rate, whichever yields the higher duty in the particular case, has absolutely no justification in reason or commercial experience.—It is a kind of intellectual legerdemain, a formula that sounds consistent with the Tariff Commission's findings, but is actually a complete departure. It would lead to significantly higher duties on some products and on the average, than the ASP rates or any fair converted equivalents of the ASP rates.

THE REASONS FOR THE DOUBLE-BARRELED RATE ARE UNSUPPORTED

In explanation of this strange duty-increasing proposal, unique in all the Kennedy Round, it has been suggested by STR that a 1966 ruling of the Customs Bureau was tantamount to a 35 percent reduction in duty, and that the statistics set forth in a table show an increasing penetration of imports.*

*Page 54 of the STR statment was twice corrected by STR. For ready reference the paragraphs relating to footwear are attached to this statement. (Attachment 4.)

These statements present a very inaccurate picture.

The 1966 guidelines

For practical purposes, the new Customs guidelines on ASP footwear became effective early in 1963, when appraisement was suspended in order that the American selling prices might be adequately investigated. Under the pressure of competition, shoes were priced into the market during, 1963, 1964 and 1965 by guesses at the duty, guesses which fortunately turned out to be fairly accurate.

Prior to 1963, the Customs appraisers were gravely at fault in mechanically applying the high United States Rubber and Hood-Goodrich price lists. The claim of the U.S. producers that as a matter of law the appraiser must select the highest priced similar shoe is not a serious one.

Prior to 1963, there were large numbers of sneakers that entered under Tariff paragraphs other than 1530(e). After adoption of the Tariff Schedules of the United States in 1963, Item 700.60 has included many articles that are not sneakers or in competition with sneakers. Only half the imports under this item in 1967 were assessed on the American selling price.

Import "penetration"

The result of these various circumstances is that import penetration reached its peak in 1960, 1961 and 1962 and has since declined. The ratio of imports to consumption in 1967 was not 23%, but much closer to 13%. During the very years that the new guidelines were first in effect (practically speaking), United States shipments increased while imports declined.

For fuller discussion of the guidelines, reference is made to the attached excerpt from our brief of June 17, 1966 to the Tariff Commission (Attachment 1).

For a fairer picture of the extent of import penetration, reference is made to the following table, in which the import figures are more accurately set forth and Puerto Rican production is included in domestic shipments. It is incorrect to use the unadjusted import statistics as is done in STR's table, even though estimation is required in making adjustments.

Nowhere is it directly said that this industry is suffering so seriously from import competition that it should receive an increase in the already extremely high level of tariff protection. Such a statement would be ludicrous, when it is considered (1) that in the Kennedy Round, rates were reduced for the rest of the footwear industry, enjoying protection at levels one-sixth to one-third of the rubber soled-footwear, and (2) that sales of U.S. sneaker-type footwear more than doubled in the last 10 years and remain at a high plateau, (3) the individual companies in the industry are very prosperous.

The protection enjoyed by this industry since 1933, taken with the absence of any reduction in the Kennedy Round and the pending legislation, presents one of the most extraordinary cases of favoritism in United States tariff history.

Decrease in unit value

The June 5 STR statement concludes:

> "Consequently, we have proposed the converted rate in terms of 25 cents per pair plus 20 percent but not less than 58 percent. In this form the industry can be assured that, if the unit value of the imported footwear decreases, the specific element of the compound duty will ensure a sufficient level of protection for the domestic producers in this period of adjustment to increased import competition."

RUBBER-SOLED, CANVAS-UPPER FOOTWEAR—SHIPMENTS, IMPORTS, APPARENT CONSUMPTION, AND RATIOS 1958–67

[In thousands of pairs]

Year	Mainland shipments	Puerto Rico shipments	Total U.S. shipments	Imports	Percent imports to total shipments	Apparent consumption	Percent imports to consumption
1958	70	(1)	--------------	12	17.0	82	14.0
1959	75	(1)	--------------	13	17.5	88	15.0
1960	84	(1)	--------------	30	36.0	114	26.0
1961	103	(1)	--------------	39	38.0	142	27.0
1962	136	(1)	--------------	47	35.0	183	26.0
1963	148	(1)	--------------	35	24.0	183	19.0
1964	162	(1)	--------------	25	16.0	187	13.5
1965	166	12	178	22	12.5	200	11.0
1966	157	13	170	21	12.5	191	11.0
1967	151	15	166	25	15.0	191	13.0

Note: Exports negligible (approximately 200,000 pairs).

Source: Bureau of the Census and Rubber Manufacturers Association, Inc. Adjusted by imported footwear group, American Importers Association.

This simply does not follow from any of the data given. It appears to be based in part on statements with respect to declining prices of imports which were deleted from the revised statement. In part it appears to confuse the effect of compound rates and the effect of the extraordinary proposed double-barreled rates. If grater protection against imports from the lower-priced sources abroad is a proper objective (which importers doubt), this objective is served by a compound rate by itself, without a minimum ad valorem rate.

What this really is, is a have-your-cake and eat-it-too proposition. Let us put it plainly. It appears that foreign prices are rising faster than United States prices, so it is to the advantage of the domestic industry that the conversion reflect the high converted average of 1965 of 58%. But there are some products on which more duty is paid today than 58%, so to prevent them from benefiting by the averaging, it is proposed to also use the compound rate.

TARIFF COMMISSION REPORT 322–47 IS ALREADY OUT-OF-DATE AND WILL BE MORE SO BY 1971

Analysis of United States import statistics indicates that between 1965 and 1968 the average f.o.b. price of ASP footwear from Japan rose 29%, from 61 cents to 79 cents, and the average f.o.b. price from all countries rose 22%, from 60 cents to 73 cents. During the same period, to the best of our information, the American selling prices applied by Customs increased about 10%. During an earlier period, foreign prices rose while theASP's remained steady.

These facts alone indicate that the 58% rate found for 1965 would be unduly high for 1968. *The trend is such that that rate will be very much out of line in 1971.*

A more rapid increase of foreign prices than of U.S. prices over a period is logically to be expected, despite inflation in the United States, because sneakers have high labor content and the imports are products of rapidly developing economies which have rapidly increasing wage levels—Japan, Taiwan, Korea, Hong Kong.

If the conversion had been negotiated with a reduction in Geneva in 1967, as were the other ASP rates, the Tariff Commission report might have afforded a fair basis, although even then there had already taken place significant price changes. It is quite out of reason to insist that that report shall establish the minimum for a conversion effective in 1971, let alone the distortion of that report that is presently proposed. The legislation should provide for a new Tarriff Commission report based on the latest available data. This is a narrow enough line of commerce so that it can be done easily enough.

THE DESCRIPTION OF PRODUCTS SUBJECT TO THE CONVERTED RATE SHOULD BE IMPROVED

The bill as proposed would increase the duty threefold on a number of different types of footwear which are not now assessed on the American Selling Price.

The nomenclature is an extremely technical problem, which was considered by the Tariff Commission and which was the subject of a further request for reconsideration by the Imported Footwear Group after the Tariff Commission's report of July 25, 1966. Attached to this statement for reference are the relevant portions of the brief dated June 17, which this Group submitted to the Tariff Commission, and our letter to the Tariff Commission requesting reconsideration dated August 22, 1966 (Attachments 3 and 4).

Essentially, the problem arises from the fact that when the Tariff Schedules of the United States were adopted in August, 1963, the rubber and plastic portions were made extremely complex by the existence of the American Selling Price valuation resulting in extraordinary high rates of duty, and the effort to draft in such a way that no sneaker-type products would escape the high duty. Thus Item 700.60, generally regarded as covering sneakers, is one word only: "other." The result is a monstrosity in terms of tariff drafting, which can and should be simplified.* It is strongly recommended that the Congress direct the Tariff Commission to find and the President to proclaim new and simplified product descriptions for the entire rubber and plastic portions of the footwear schedule. In the meantime, *the problem should be dealth with by describing the products subject to the high duty and making the low duty products the basket provision.*

The Tariff Commission did make allowance in Report 322–47 for a number of different products that enter under 700.60 that are not assessed on the American Selling Price, but it did not take care of all of them and there may well be products in the future that would come within the high rate which have never been competitive with the products of the American rubber footwear industry.

The principal types of products in question at this time are vinyl shoes and sandals with closed toes or heel that have trim of mylar, beads or textiles; vinyl snow boots with textile cuffs amounting to 10% or more of the upper; nonfolding slipper with fabric uppers sewn or cemented to rubber or vinyl soles; and "jikatabi" (Japanese-type canvas-upper footwear with separated toe). The Tariff Commission has never made any finding with respect to these articles, but the Imported Footwear Group distributed a questionnaire to its members in

*See Attachment 5.

1966 which was accepted and utilized by the Tariff Commission in making certain modifications in its recommendations.

In 1966, the indication was that there were well over one million pairs of footwear being entered on which the duty would thus be unfairly increased. The Tariff Commission recommended that the average ad valorem duty on 700.60B be reduced from 60% to 58% to compensate for these items, but this is not a satisfactory solution. It is no solace to the producers and importers whose product is effectively banned from commerce, and even as a matter of mathematics, as the August 22, 1966 letter attached hereto shows, it is not accurate because the reduction would have to be 3 or 4% on the basis of the statistics then available.

Another defect of the Tariff Commission's recommendation was that it did not take account of the existence of machine-made sneakers, which have the sole affixed to the upper in a single operation rather than in many hand operations as in the built-up shoe. They are produced as efficiently or more efficiently in the United States than abroad and which are therefore not at this time being imported. Many millions of machine-made sneakers are being produced in the United States, some by the established producers and some by newcomers whose production is probably not fully reported in the available statistics. It is very likely that the future of the sneaker market lies with the machine-made sneakers. A tariff rate on such products based on relative factory prices would not be higher than 20%, rather than any figure found to be the weighted average for the built-up sneakers. It is unfair to fix a minimum rate at this time which does not take account of such products, which probably cannot now be imported even at the 20% rate.

The tariff nomenclature is a complicated subject and the Ways and Means Committee may not wish to make a determination itself. However, it is certainly not appropriate at this time to freeze into the legislation the nomenclature of Tariff Commission's 1966 report, since there is plenty of time for improvement. The terms of reference for the authority to enter into an agreement should be so drafted that a better solution can be found without having to go back to the Congress for further legislation.

CONCLUSION

Section 401(b) of H.R. 17551 should be amended to authorize an agreement providing for conversion on the basis of a new Tariff Commission report, without statutory minimum rate and with provision for reduction in return for reciprocal concessions.

[Attachment 1.—Excerpt from Imported Footwear Group Brief of June 17, 1966]

THE NEW CUSTOMS GUIDELINES

The new guidelines which were put into effect in February of this year by decision of the Treasury Department, governing the appraisement of footwear on the American selling price, are not in issue in this proceeding. The Tariff Commission was requested to report the rates of duty which would have provided an amount of collected duty during a recent period substantially equivalent to the amount actually collected. The Commission selected a recent period, namely the year 1965, and determined on the basis of data with respect to actual appraisements the amounts of collected duty for articles assessed upon the American selling price. We submit that the wisdom or legality of the rules applied by the Customs Bureau in making the appraisements in 1965 is not in issue.

However, since the Rubber Manufacturers Association contends that the guidelines are relevant, and since there has been much misunderstanding about them, we submit the following clarifications.

It was the source of complaint for some years on the part of importer that in applying American selling price duties the appraisers mechanically used the official price lists of U.S. Rubber and Hood-Goodrich without regard to the fact that these very companies did not sell most of their products at these prices, and that there were many cheaper products of other companies in the market. In fact, it was not uncommon for American sneakers to be offered competitively with the imports at retail prices less than half the American selling prices that were being used as the basis for collection of duty. For instance, the official American selling price for a ladies' tennis oxford was \$2.65 less 6%, or \$2.59. Many such American shoes, even before the Desma process, could be bought at retail at prices of $1.25 or $1.35.

The usual answer was that it was necessary to use the official price lists because these were the only products that were freely offered to all purchasers in the usual course of trade under the old valuation law, rubber footwear being on the "Final List" of products not valued under the Customs Simplification Act of 1956.

Finally, however, in 1962, the Commissioner of Customs concluded that there was merit in the complaints and directed a full investigation. As indicated above, it quickly became known that lower prices were likely to result and higher prices would not, so, under the spur of competition, imports were priced into the market at prices well below those that would have resulted from the use of the old American selling prices.

There never was any official Customs policy of utilizing the highest-priced similar American shoes as the basis for ASP. There was a practice of using the U.S. Rubber and Hood-Goodrich price lists in order to simplify administration, but when the importers complained, as early as 1956, to our direct knowledge, they were told in the Customs Bureau that if they would bring a similar domestic shoe to the appraiser and satisfy him that the various conditions of Section 402a of the Tariff Act of 1930 were met, the appraiser would be willing to adopt the price of such shoes as the basis if they were "more similar" to the imports. We know of no written instruction by the Bureau of Customs requiring use of the highest-priced shoes. Court decisions which have sustained the appraiser in the use of such price lists have simply affirmed his discretion to select among products which are similar to the imports.

In the case of most other products subject to American selling price valuation, namely, chemicals, it has not been the practice to use the highest-priced similar American product. The ASP duties on chemicals derive from statute, and the standard is the "similar competitive" American product. This is defined to include articles that are not similar but are competitive in use. Thus, in seeking to give the maximum protection to the chemical industry, the Congress utilized the standard of competitiveness. This is the only sensible yardstick in Section 336 where it is necessary to choose among "similar" products.

There are two points to the new guidelines. Appraisers are instructed to use the American product which is most similar in physical characteristics to the imports. This concept of "more similar" follows with irresistible logic from Congressional use of the terms "like or similar." The second point is that if one or more products are found to be equally similar, the appraisers are to select that which is closest (not "lowest") in price. In practice, this may be the lowest price, but this is not the instruction and it distorts the principle involved.

Contrary to a general impression, the new guidelines did not effect a significant reduction in duties as compared with the old practice, if account is taken of all types of products presently entered under Item 700.60 of the Tariff Schedules and assessed on the American selling price. As indicated by the attached tables and chart, Exhibit 2 at the hearing, imports reached their peak in 1962, and in 1961 and 1962, according to our estimates, imports were 26% of U.S. production. One reason imports reached this peak is that during these years there were substantial numbers of so-called low-duty sneakers introduced which were not reported under the statistical numbers for sneakers. We stressed this point in our brief to the Tariff Commission of March 17, 1964, and offered the best available estimates of the quantities that were involved. Table II of Exhibit 2 shows that in 1961 approximately 29% of the imports were not assessed on the American selling price, and in 1962 almost 40%. Therefore, even though the ASP duties were around 100% of export value in 1962, a weighted average for that year would be considerably lower. It should be noted that these are rough estimates, and if 1962 experience were considered germane, it would be essential to seek the actual data by questionnaires to the leading importers.

In sum, there is no foundation for the position of the RMA that the appraisements under the new guidelines are not a proper basis for the report which is to be made by the Tariff Commission in this investigation, and the attacks upon the new guidelines are based upon misapprehensions as to the reasons for them and their consequences.

[Attachment 2—Excerpt from Imported Footwear Group Brief of June 17, 1966]

PROBLEMS OF NOMENCLATURE

Members of the trade in imported rubber footwear make three important points, all of which bear upon the request in the terms of reference to determine rates of duty "in accordance with sound standards of tariff nomenclature."

1. *Revision of rubber and plastic portion of the footwear schedule.* A glance at the entire footwear schedule which is reproduced at the back of this brief without the statistical annotations, demonstrates that the rubber and plastic portions of the footwear schedules have become a monstrosity. This was accomplished in the name of simplification in the course of drafting the TSUS through an excess of zeal to protect the American selling price products. The Congress has now abolished the American selling price duties for protective footwear, and the present exercise will lead, we hope, to the abolition of the American selling price duties on rubber-soled footwear with fabric uppers. It would be a serious mistake not to take a fresh look in this exercise at the footwear schedule and to restate it in simpler form. Items 700.05 through 700.40 cover in 13 lines and 11 item numbers the whole field of what is commonly called leather footwear, all of it simply stated. The same can very well be done for the remainder of the schedules. We have made some trials along this line, but representing four different organizations with many different members, are not in position to make a specific proposal at this time. The Tariff Commission should, in any event, make a proposal available for comment by all interested parties, since there are bound to be some bugs in the first few drafts of such revision.

2. *Products predominantly of vinyl should be removed from 700.60 and placed in 700.55 at 12½%.*—We remonstrated at the hearings on the TSUS that it was unwise to make the ASP products a basket category. When the TSUS was in its final stages, we took to the Tariff Commission's staff samples of vinyl slippers and snow boots with cuffs and pointed out that they would be subject to ASP although they were nothing like the products of the American industry. This schedule had been through many revisions, however, and it was too late. The result in 1965, when 47% of the products were non-ASP and a very large percentage were of types entirely different from the products of the American industry, bears out our worst surmises.

This is an appropriate occasion for the Tariff Commission to recommend, in dealing with the problem of nomenclature, that the types that were not intended to be included in the first place be taken out of Item 700.60 and placed in 700.55 where they belong. The type of which this is especially true is shoes and slippers that have PVC uppers and rubber or PVC soles. There are two principal reasons why such products, which ordinarily would enter under 700.55, come under 700.60. Both relate to the language of Item 700.55.* One is if ornamentation such as mylar tape or beading or textile cuff amounts to 10% or more of the outer surface of the upper. This does not change the character of the merchandise at all in any practical or commercial sense, but under present rulings of the Customs Bureau it has the tariff consequences of increasing the duty from 12½% to 20% and of subjecting them to the danger of American selling price valuation. Fortunately, the latter has not occurred because, on the whole, similar American products have not been found.

The other important reason is the presence of a rubber foxing, bringing into play the parenthetical exception in Item 700.55. This parenthesis was put in because there had existed a product with a sneaker-type appearance with an upper of vinyl, and the draftsmen thought it was appropriate to subject such a product to the American selling price. Such a product has never been found merchantable, but, as exhibited at the hearing, there are a variety of vinyl-upper products, one name for which is "vinyl floater," which have a foxing, in some cases cemented and in some cases vulcanized. These products bear no resemblance to the traditional products of the American rubber-soled footwear industry, and, in the course of abolishing ASP, should not be subjected to an ASP rate. Nor should they be subjected to the 20% rate but rather to the 12½% rate for nonwaterproof products with vinyl uppers. A simple method to achieve this is to eliminate the parenthesis in Item 700.55.

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*"Having uppers of which over 90% of the exterior surface area is rubber or plastics (except footwear having foxing or a foxing-like band applied or molded at the sole and overlapping the upper)."

3. *The higher-duty products should be defined and others treated as a basket.*—The ASP products are clearly a much more homogeneous and definable class than the other products that presently enter under Item 700.60. Even after removing the vinyl products, as urged above, there will remain a substantial number of articles, slippers and casual wear with fabric uppers, that in no way resemble the traditional products of the American rubber footwear industry. If this is done without radically revising the rubber and plastic footwear portion, we recommend the following treatment under 700.60 (Exhibit 4 at the hearing):

A. Footwear with outer soles of rubber or plastics, which is over 50% by weight of rubber, plastics and fibers (exclusive of fillers), produced by hand-assembling the sole and vulcanizing to the upper.

B. Other (20 percent).

It should be noted that this definition would exclude iron powder sneakers through the reference to fillers (the Customs Bureau having concluded that the iron powder is a filler for the rubber), would exclude leather-soled sneakers by the reference to the outer sole, and would exclude machine-made sneakers by the term "hand-assembled."

We have noted the criticism of the RMA that the Tariff Commission's definitions would take permanently out of the higher duty products which were not manufactured in the United States in 1965, even though under the ASP system they would incur the higher duty if American manufacturers saw fit to make them at some time in the future. This characteristic of the ASP system is really one of the vices which have led to a strong consensus that the system should be abolished. Nothing could be more contrary to an intelligible tariff policy than the notion that by reason of an investigation in 1932 of the relative costs of production of the products then being produced, this particular industry (if it can be defined, which is doubtful in view of the variety of products today) should forever be given the special protection of duties many times the normal rates, even against products designed and pioneered by the foreign producers!

THERE SHOULD BE A SPECIAL RATE FOR MACHINE-MADE SNEAKERS

A technological revolution has been occurring in the rubber footwear industry. Machines, usually known as Desma machines, are in use in ever-increasing numbers in the United States and in some other countries that mold and vulcanize rubber soles to the uppers in a single operation. Other machines mold a PVC sole to an upper in a single operation through injection molding. These operations were clearly described by Mr. Senter at the hearing (Tr. 79–80). The latter operates at a very rapid rate, and the curing time is extremely short. Mr. Allerhand estimated that of the 166 million shoes produced in the United States perhaps 100 million are produced by the new machines (Tr. 67). The use of such machines undoubtedly explains some of the job decline described by labor witnesses in certain plants. When the Commission investigates the consequences for the domestic industry of a change in the tariff on rubber footwear, it is important that it analyze fully the implications of such new machinery.

For purposes of the present investigation, the important point is that machine-made sneakers were not imported in 1965, and therefore the recent period selected does not afford a proper foundation for the establishment of a converted rate for such products. So far as we can learn, the Customs Bureau has not established any American selling prices for such products since the new guidelines. Our best information is that for a ladies' sneaker the American selling price would be approximately 80¢ for a PVC sole machine-made sneaker, while the equivalent FOB costs would be about 60¢.

The reason that there have been practically no imports of machine-made shoes is that this is a capital-intensive product in which the advantage lies with the United States producers rather than with the foreigners. Even with present high U.S. interest rates, capital is by far cheaper in the United States than in the Far Eastern nations which are the primary foreign suppliers of sneakers. Foreign costs of PVC are also higher (Tr. 80). A sewing operation is still involved, of course, to make a fabric upper product, but the U.S. and foreign costs of production are far closer than they are on the conventional sneaker.

For these reasons, a rate derived from the experience of 1965 would be altogether inappropriate for these products, and on the basis of present information, a rate of 20% is much closer to the actual equivalent than the weighted average for the ASP products imported.

[Attachment 3]

IMPORTED FOOTWEAR GROUP,
NATIONAL COUNCIL OF AMERICAN IMPORTERS, INC.,
New York, N.Y., August 22, 1966.

Re Converted duties on footwear—Investigation No. 332–47.

UNITED STATES TARIFF COMMISSION,
Washington, D.C.

GENTLEMEN: The purpose of this letter is to request that the Tariff Commission review two points in its Report of July 25, 1966 with respect to footwear, because injustice to American importers and unnecessary difficulties in negotiations will result if correction is not made at this time.

1. *The definition of the products to remain at 20 per cent ad valorem is unduly narrow, subjecting well over one million pairs to a prohibitive duty increase.* The final Report broadened somewhat the description of shoes covered by Item 700.60 and not subject to an ASP valuation. The proposed description for Item 700.60A becomes:

> "Footwear with open heels and toes; footwear with pliant soles and uppers which went off the foot characteristically fold flat from heel to toe; and footwear with outer soles almost wholly of leather or the soles of which contain not less than 60 per cent by weight of iron powder . . ."

The Report indicates that "a small quantity of such shoes dutiable at 20 per cent ad valorem on the basis of export valuation would of necessity be combined with the shoes entered under the ASP provision." To take care of this the proposed converted rate of duty is reduced from 60% in the preliminary report to 58%.

We submit that the quantity that would be subject to the higher duty is not small, that there is no "necessity" for such treatment, and that the 2% reduction in the high rate does not make the treatment more acceptable.

According to our information, the tripling of duties would affect the following types of products, as well as others not known now, all of which would be effectively prohibited by such an increase:

(*a*) Vinyl footwear which would be dutiable under Item 700.55 except that there is non-rubber or plastic trim or cuff constituting 10% or more of the exterior surface of the upper.

(*b*) Vinyl footwear which would be dutiable under Item 700.55 except that there is a foxing, throwing it into 700.60.

(*c*) Footwear of casual and slipper types having fabric uppers and rubber or plastic soles not vulcanized or molded to the uppers.

(*d*) Footwear with fabric uppers and vulcanized rubber soles not like or similar to any American product.

Examples would be vinyl shoes and sandals with closed toes that have mylar trim, vinyl snow boots with textile cuffs amounting to 10% or more of the upper, nonfolding slippers with fabric uppers sewn or cemented to rubber or vinyl soles, and Italian casual shoes with rubber soles and fabric uppers.

In the questionnaire which was submitted at the hearing we attempted to determine the quantity of types of non-ASP products. This questionnaire, which was apparently utilized by the Commission at arriving at the 2% reduction, indicates that the 18 importers who responded imported approximately 765,000 pairs of footwear in 1965 in the four categories set forth above. The total importations of non-ASP products under item 700.60 by these 18 firms were 9.4 million, while official U.S. statistics indicate that total importations of non-ASP products under item 700.60 in 1965 were 15.8 million. Our experience indicates that there is a considerable variation of the types of goods handled from one importer to another, so that all the questionnaire proved is that there were *at least* 765,000 pairs imported. It is likely that there were considerably more in this category, and it is possible that there was any amount up to the 6.4 million pairs of non-ASP shoes not accounted for.

As a statistical matter, if these figures are used as an element of a weighted average, they have to be increased by 15.8 over 9.4, and the percentage reduction would be 3 or 4% not 2%. In any case, however, we submit that a reduction in the high-duty category does not compensate in the least for the destruction of commerce in the products in question. Since they are of a class that is presently imported at 12½% under item 700.55, the 20% duty already presents marketing problems and a 58% duty would put a complete stop to trade in such products.

The obvious solution is to define the high-duty products and let the others be a basket provision, as urged in our brief of June 17, 1966. Such a definition poses fewer technical problems than defining the miscellaneous low-duty products. If the low-duty products are defined, however, the definition should be expanded to include the products discussed above. At the same time, most of these products should be shifted to item 700.55, as recommended in our brief.

2. *There should be a separate rate or rates of duty for machinemade sneakers.*—The Report unjustifiably assigns the high duty based upon 1965 experience to certain products that did not enter at all in 1965. These are the sneakers the soles of which are fastened to the uppers by vulcanizing or molding in a single operation as compared to the many steps in the assembling of a conventional sneaker. A technical revolution is going on in the rubber-plastic footwear industry, and there is every reason to believe that production worldwide will shift to these new methods. It is inevitable that the average converted rate for machine-made sneakers would be considerably lower than for conventional sneakers, because these are capita-intensive products in which the foreign producers have little or no advantage over United States producers.

Most of the members of the Imported Footwear Group, National Council of American Importers are purely American firms, and there is no reason why they should look to an international negotiation to protect their interests. It is earnestly requested that the Tariff Commission clarify the points discussed above to prevent unjustified and easily avoidable rate increases.

Yours respectfully,

EDWARD LIPKOWITZ,
Chairman, Imported Footwear Group,
National Council of American Importers, Inc.

[Attachment 4—Excerpt from Statement of Ambassador Roth before Ways and Means Committee, June 5, 1968]

RUBBER SOLED FOOTWEAR WITH FABRIC UPPERS

Through the enactment of section 401(b) of H.R. 17551 the Congress will provide for the elimination of ASP with respect to imports of rubber soled footwear with fabric uppers.

Unlike benezenoid chemicals, the elimination of ASP for rubber soled footwear was not the subject of agreement during the Kennedy Round. Nor did ASP first become applicable to such footwear by statute but rather by Presidential Proclamation in 1933. The action proposed with regard to rubber footwear is also a reflection of a very different economic position which obtains for that industry from the one presented by the chemical industry. A consequent final difference between the two is that no reduction is proposed in the converted rate that was established by the Tariff Commission for rubber soled footwear in its advice to the Special Representative for Trade Negotiations in 1966.

On the basis of 1965 data the Tariff Commission determined that the ASP rate was equivalent to a converted rate of 58 percent based on export value. The Tariff Commission also proposed that noncompetitive footwear be subject to a rate of 20 percent.

Prior to 1963, the practice of the Bureau of Customs in the appraisement of such footwear was to assess the duty on the value of the highest priced like or similar domestic article. In 1966, the Bureau of Customs put into effect new guidelines under which the appraisement of such footwear is made at the value of the like or similar domestic articles closest in price to the price of the imported article. The industry has maintained that this action was tantamount to a 35 percent reduction in duty and that, but for this action, the converted rate established by the Tariff Commission would have been over 90 percent. The changed guideline is now being appealed to the courts.

For reasons I have gone into elsewhere, we consider the ASP system to be anachronistic and that it should be eliminated for good commercial policy reasons. This is so with regard to rubber soled footwear as well as the other products subject to ASP.

We have been particularly mindful of the increasing penetration of imports of this commodity. Rubber soled footwear imports, as shown in the attached table, have increased from 4.4 percent of apparent consumption in 1958 to 23 percent in 1967. Shipments, moreover, have been declining and imports have risen rapidly since the new guidelines went into effect.

Consequently, we have proposed the converted rate in terms of 25 cents per pair plus 20 percent but not less than 58 percent. In this form the industry can be assured that, if the unit value of the imported footwear decreases, the specific element of the compound duty will ensure a sufficient level of protection for the domestic producers in this period of adjustment to increased import competition.

TARIFF SCHEDULES OF THE UNITED STATES

FOOTWEAR SCHEDULE

Item	Articles	Concession rate effective Jan. 1, 1968
	Footwear, of leather (except footwear with uppers of fibers):	
700. 05	Huaraches	20% ad val.
700. 10	McKay-sewed footwear	18% ad val.
700. 15	Moccasins	10% ad val.
700. 20	Turn or turned footwear	4% ad val.
	Welt footwear:	
700. 25	Valued not over $2 per pair	17% ad val.
700. 26	Valued over $2 but not over $5 per pair	30¢ per pr.
700. 27	Valued over $5 but not over $6.80 per pair	6% ad val., but not more than 34¢ per pr.
	Valued over $6.80 per pair:	
700. 28	Ski boots	4% ad val.
700. 29	Other	5% ad val.
700. 30	Footwear with molded soles laced to uppers	9% ad val.
700. 32	Slippers	Do.
	Other:	
700. 35	For men, youths, and boys	9.5% ad val.
	For other persons:	
700. 41	Sandals of buffalo leather, the uppers of which consist primarily of straps across the instep and big toe.	18% ad val.
	Other:	
700. 43	Valued not over $2.50 per pair	19% ad val.
700. 45	Valued over $2.50 per pair	18% ad val.
	Footwear (whether or not described elsewhere in this subpart) which is over 50 percent by weight of rubber or plastics or over 50 percent by weight of fibers and rubber or plastics with at least 10 percent by weight being rubber or plastics:	
	Hunting boots, galoshes, rainwear, and other footwear designed to be worn over, or in lieu of, other footwear as a protection against water, oil, grease, or chemicals or cold or inclement weather, all the foregoing having soles and uppers of which over 90 percent of the exterior surface area is rubber or plastics (except footwear with uppers of nonmolded construction formed by sewing the parts thereof together and having exposed on the outer surface a substantial portion of functional stitching):	
700. 51	Having soles and uppers of which over 90 percent of the exterior surface area is polyvinyl chloride, whether or not supported or lined with polyvinyl chloride but not otherwise supported or lined	12.5% ad val.
700. 52	Footwear (except footwear provided for in item 700.51), the uppers of which do not extend above the ankle, designed for use without closures, whether or not supported or lined	25% ad val.
700. 53	Other	37.5% ad val.
	Other footwear (except footwear having uppers of which over 50 percent of the exterior surface area is leather):	
700. 55	Having uppers of which over 90 percent of the exterior surface area is rubber or plastics (except footwear having foxing or a foxing-like band applied or molded at the sole and overlapping the upper)	11% ad val.
700. 60	Other	20% ad val.
	Footwear, with uppers of fibers:	
	With soles of leather:	
700. 66	Valued not over $2.50 per pair	19% ad val.
700. 68	Valued over $2.50 per pair	18% ad val.
	With soles of material other than leather:	
700. 70	With uppers of vegetable fibers	13% ad val.
700. 75	With soles and uppers of wool felt	12.5% ad val.
700. 80	Other	22% ad val.
	Other footwear:	
700. 83	Of wood	15% ad val.
700. 85	Other	22% ad val.

Note: By virtue of headnote 3(a) of this subpart, articles imported under item 700.60 (and only 700.60) are assessed on the American selling price of the like or similar domestic article.

Mr. BURKE. Thank you. Are there any questions?

Thank you for your testimony, Mr. Hemmendinger. Thank you very much.

Mr. HEMMENDINGER. Thank you, sir.

Mr. BURKE. Our next witness will be Mr. William C. Campbell.

Will you suspend just a moment, until we allow this gentleman to make a statement. I misunderstood.

STATEMENT OF EDWARD LIPKOWITZ

Mr. LIPKOWITZ. My name is Edward Lipkowitz. I am chairman of the Imported Footwear Group, American Importers' Association.

We are against any quotas on all footwear, especially vinyl because they are sold mostly to the poor people, and do not affect too many of the manufacturers of this country.

Furthermore, all footwear manufacturers have been making good profits in the last few years. Look at their financial statements, look at the stockmarket prices, on all shoe companies, right up to now. There is a labor shortage in practically all shoe factories.

I know if there were no imports on shoes, prices would be much higher, and the same goes for sneakers, and I feel that sneakers and basketball shoes, would not only be at much higher prices, but on a quota basis from manufacturers in this country.

The big sneaker demand was started by the Japanese promotions.

As far as the ASP is concerned, that is absolutely ridiculous. I feel that ASP should be removed, and the sneaker and basketball duty should be no higher than 20 percent, and no compound rate should be enacted.

On machine-made sneakers, the duty should be five percent at the most, because on machine-made sneakers, like in the desma process, injection molded process, and other like processes, they do not require much labor, and these sneakers and basketball shoes coming in from any of the Far Eastern countries, their prices are almost as high as in the States.

When you have to add ocean freight, city freight, insurance, LC's, forwarders charges, it will add up to the same or higher than in this country. Putting a 58 percent minimum duty on handmade sneakers in this is way out of line.

Thank you.

Mr. BURKE. Thank you.

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

DEPARTMENT OF STATE,
Washington, D.C., June 28, 1968.

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

DEAR MR. MARTIN: The British Embassy, by note No. 169 dated June 28, has requested the Department of State to transmit to the Committee on Ways and Means statements prepared by British manufacturing and trade associations in conjunction with the current hearings on trade policy.

A copy of the British note, as well as copies of the statements, are enclosed for appropriate use by the Committee and other interested parties.

Sincerely yours,

MARTIN Y. HIRABAYASHI,
Chief, Special Trade Activities and Commercial Treaties Division.

NOTE No. 169

Her Majesty's Embassy for the United Kingdom present their compliments to the Department of State and have the honour to refer to the hearings on trade policy currently being held by the Committee on Ways and Means of the House of Representatives.

A number of British manufacturing and trade associations have prepared statements which are relevant to the subjects under discussion by the Ways and Means Committee; and the Embassy would be grateful if the State Department could facilitate the transmission of these documents to the Committee.

The statements which are enclosed with this Note are:

* * * * * * *

(c) A submission by the Rubber and Plastic Footwear Manufacturers' Association.

* * * * * * *

BRITISH EMBASSY,
Washington, D.C., June 28, 1968.

STATEMENT OF R. J. MAY, HON. SECRETARY, RUBBER AND PLASTICS FOOTWEAR MANUFACTURERS ASSOCIATION, LIVERPOOL, ENGLAND

To the Chairman:

SIR:

1. The following submission is made by the Rubber and Plastics Footwear Manufacturers Association, Rice Lane, Walton, Liverpool, 9, England. The Association represents five major manufacturers of rubber/plastic and rubber-soled footwear with canvas uppers in Great Britain. They are jointly responsible for 50% of the total production of this type of footwear in the United Kingdom.

Our purpose in putting forward this submission is to clarify the viewpoint of the members of our Association to the present U.S. Tariff system and its effect on the trade between U.K. Manufacturers of rubber/plastic/canvas footwear and the United States.

2. Reference to U.S. Tariff Items

This submission relates to Tariff items:

700.60 Rubber Soled Footwear with Fabric Uppers.
700.53 Natural Rubber Footwear.

3. Present U.S. Tariff Structure.—

(*a*) *Rubber Soled Footwear with Fabric Uppers. TSUS item 700.60*

Currently footwear under this item is subject to a rate of duty at 20% ad valorem of the A.S.P. of like, or similar domestically produced articles. Items, which are not like or not similar are not subject to A.S.P. The bulk of this type of footwear imported into the U.S. and produced by U.K. rubber and canvas footwear manufacturers is dutiable on A.S.P., being primarily tennis types, Oxfords, Basketball shoes and Sneaker styles.

(*b*) *Natural Rubber Footwear. TSUS item 700.53*

Footwear under this item is subject to valuation on the export value or foreign value, whichever is the higher. This duty works out on average at 37½ of the United Kingdom wholesale price of such articles.

4. Tariff Schedule Amendment Act 1965

By this Act rubber footwear under item 700.53 entering the U.S. was no longer subject to valuation on the basis of A.S.P. or C.A.V. whereas under the former tariff structure, protective footwear which contained less than 10% of natural rubber content carried a duty of 12½% ad valorem. Importers of footwear within this category are faced, under the above Act, with a rise in duty of 25%.

5. Economic Effects to the U.K. Manufacturer of the Tariff Schedule Amendments Act of 1965—Rubber Footwear

Exports to the U.S.A. of rubber footwear over the past seven years are shown below:

RUBBER FOOTWEAR

	Pairs	British pounds
1960	197,383	129,449
1961	174,645	105,190
1962	319,679	154,042
1963	177,760	156,168
1964	187,041	109,131
1965	210,123	140,976
1966	128,800	108,800

Source: United Kingdom customs and excise return.

U.K. Exports of Rubber Footwear to U.S.A.

Comparing the six month period January/June, 1965, before the Tariff Schedule Amendments Act of 1965 came into force, with the equivalent periods January/June 1966 and 1967—after the Act was in being—the position is as follows:

RUBBER FOOTWEAR

	January/June			
	Pairs	Index 1965 equals 100	British pounds	Index 1965 equals 100
1965	78,172	100.0	53,576	100.0
1966	52,390	67.0	47,295	88.3
1967	57,240	73.2	44,406	82.9

Source: H.M. Customs and Excise.

These figures show that since the new Act has been in force, rubber footwear exports from the U.K. into the U.S.A. have dropped 26.8 % in volume and 17.1% in value (1965 v. 1967).

Taking examples of specific products, which fall within the category rubber footwear, the new duty structure has resulted in an increase in the amount of duty payable on articles of rubber foot wear e.g.

(i) A U.K. manufactured rubber Yachting Boot formerly attracted a duty at 12% of the F.O.B. price based on C.A.V.—now attracts a duty of 41% of the F.O.B. price.

(ii) On U.K. manufactured all rubber Golf Shoes (category protective rubber footwear) the duty has risen from .56 cents per pair of $1.68 per pair.

The overall effect of the new tariff structure appears therefore to have been twofold, inasmuch as it has tended to increase the amount of duty on items of rubber footwear and consequently to reduce the volume of imports into the U.S.A. from the United Kingdom.

This rise in duty rate, would seem to our Association to be contrary to the spirit of the GATT agreements and to the Kennedy Round as it increases tariff barriers rather than leading to their reduction and eventual abolition.

In contrast to the position on natural rubber footwear entering the United States under tariff item 700.53, we would mention that imports of similar footwear entering the U.K. from the United States, under U.K. tariff heading 64.01 (not containing Furskin) are subject to a low specific duty, which has remained unaltered since 1932.

6. Rubber soled footwear with fabric uppers. U.S. tariff item TSUS 700.60

As instanced above, most of the rubber soled footwear with fabhic uppers entering the U.S. from the U.K. is subject to A.S.P. In the view of our Association, this method of assessing the value of goods for duty purposes is unsatisfactory. Basically, it is related to the value of the like or similar domestic article in price, to the price of the imported article, and because the domestic article in practice is usually higher in price than the imported article of footwear from the U.K., the duty tends to be disproportionately high in relation to the U.K. export price. We contend therefore that this method of valuation results in artificially high rates of duty. Also by its nature, valuation on the basis of A.S.P. does lead to anomalies as it cannot be uniform.

In addition, information from our members indicates that particularly when new types of products are exported to the U.S., there is at times considerable delay in arriving at a valuation under A.S.P., due to the U.S. customs having to select an equivalent domestic product for comparison.

In 1965/1966 the U.S. Tariff Commission investigation No. 332–47, looked into the question of footwear under TSUS 700.60 subject to the A.S.P. basis of valuation, with a view to assessing the probable economic effects on domestic producers of the elimination of A.S.P. system of valuation, and a reduction of up to 50% in a schedule of converted rates of duty based on conventional methods of valuation. In 1966 this Association made a submission to the United States Tariff Commission on this subject and our views as expressed in this document (copies of which are enclosed) dated 25th August, 1966, have not changed. These views can be summarised briefly by stating that, whilst we would wish to see the A.S.P. system of valuation replaced, we consider that any new system reverting to an ad valorem duty basis should result in less and not more duty than at present. Furthermore, as demonstrated in our submission to the U.S. Tariff Commission referred to above, we consider that any concession granted by the Tariff Commission as a result of the abolition of A.S.P. as a basis of valuation would be detrimental to U.K. exports to the U.S. under TSUS 700.60, if the effect of such a concession was to operate in the same manner as the changes resulting from the Tariff Schedule Amendments Act, 1965, as shown in section 5 of this submission.

7. *Conclusion and submission*

The figures below show total imports of rubber footwear and rubber soled footwear with fabric uppers into the United States from the U.K. for the period 1960/1966.

IMPORTS RUBBER AND RUBBER SOLED FOOTWEAR WITH FABRIC UPPERS

	Pairs	British pounds
1960	307,156	175,786
1961	370,517	167,952
1962	721,247	255,361
1963	549,553	236,589
1964	498,419	192,525
1965	383,441	199,403
1966	306,900	156,700

Source: United Kingdom customs and excise return.

We conclude that since 1965—the year of the Tariff Schedule Amendments Act, there has been a particularly sharp drop in U.K. exports to the U.S.A. and we believe, that tariff legislation of this type, coupled with the A.S.P. system of valuation is a definite barrier to the U.K. trade in rubber/canvas footwear with the United States.

We would mention that the cost of manufacture of rubber and canvas footwear in the United Kingdom, is comparable with that in order major Western European Countries and that U.K. Manufacturers do not enjoy subsidies. Their costs are therefore not comparable on like or equivalent products, produced in either low labour cost countries, or in those Eastern European Countries whose manufacturers enjoy a substantial element of cost subsidy.

We submit that in our view, the present system of Tariffs and valuation practices, as operated at present by the United States constitute non-tariff barriers, which are contrary to the spirit of GATT/Kennedy Round and should be amended in such a manner as to encourage increased trade between the U.K. and the U.S.A. by lowering duties, rather than by raising them.

THE UNITED STATES TARIFF COMMISSION, WASHINGTON, D.C.

GENTLEMEN:

1. The following submission is made by the Rubber and Plastics Footwear Manufacturers Association, Rice Lane, Walton, Liverpool 9, England. The Association represents five major manufacturers of rubber and rubber-soled footwear with canvas uppers in Great Britain. They are jointly responsible for 50.9% of the total production of this type of footwear in the United Kingdom.

Our purpose in putting forward the submission is to clarify the viewpoint of the members of our Association to the probable economic impact of concessions on rubber-soled fabric upper footwear now subject to Duty on the American selling price basis of valuation. We agree that valuation on the basis of A.S.P. does lead to anomalies because by its very nature it cannot be uniform. We would also welcome a reduction of up to 50% in the proposed converted rate. We consider, however, as we understand the position, that the Commission is "to indicate its assessment of equivalency of protection achieved by the converted rates"—U.S. Tariff Commission report on investigation 332–47. In other words, no reduction in the duty on imports is envisaged.

We, therefore, feel that without prior knowledge of the actual percentage reduction in the converted rate which might be agreed upon and in the light of the statement of equivalency of protection, we can only assess the likely economic effects on imports by drawing a parallel between the possible effect of the proposed concession with the actual effect of a recent change in the tariff structure on Rubber Footwear under TSUS 700.53.

2. References to U.S. Tariff items

The submission relates to Tariff item 700.60 Rubber-soled Footwear with Fabric Uppers.

3. Present U.S. Tariff Structure

(*a*) *Rubber Soled Footwear with Fabric Uppers. TSUS Item 700.60*

Currently footwear under this item is subject to a rate of duty at 20% ad valorem of the A.S.P. of like or similar domestically produced articles. Items which are not like or similar are not subject to A.S.P. The bulk of this type of footwear imported into the U.S. and produced by members of our Association is dutiable on A.S.P., being primarily tennis types Oxfords, Basketball Shoes and Sneaker styles.

(*b*) *Natural Rubber Footwear. TSUS Item 700.53*

Footwear under this item is subject to valuation on the export value or foreign value, whichever is the higher. This duty works out at 37½% of the United Kingdom wholesale price of such articles.

4. Tariff Schedule Amendments Act 1965

By this act Rubber Footwear under item 700.53 entering the U.S. is no longer subject to valuation on the basis of A.S.P. or C.A.V. Whereas under the former Tariff Structure Protective Footwear which contained less than 10% of natural rubber content carried a duty of 12½% ad valorem, Importers of footwear within this category are now faced with a rise in duty of 25%.

5. Economic effect to the U.K. Manufacturer of the Tariff Schedule Amendment Act 1965—Rubber Footwear

Exports to the U.S.A. of rubber footwear over the past six years are shown below:

RUBBER FOOTWEAR

	Pairs	British pounds
1960	197,383	129,449
1961	174,645	105,190
1962	319,679	154,042
1963	177,760	156,165
1964	187,014	109,131
1965	210,123	140,976

Comparing the six-month period January/June 1965, before the Tariff Schedule Amendments Act 1965 came into force, with the equivalent period January/June 1966—after the Act was in force—the position is as follows:

U.K. Exports to the U.S.A.

RUBBER FOOTWEAR

Type	January/June 1965		January/June 1966	
	Pairs	British pounds	Pairs	British pounds
Wellingtons	60,575	35,229	13,083	5,464
Other protective	10,113	12,924	34,715	37,888
Total protective	70,688	48,153	47,798	43,352
Industrial	7,484	5,423	4,592	3,943
Total rubber footwear	78,172	53,576	52,390	47,295

These figures show that since the new Act has been in force, Rubber Footwear imports have dropped by 33% in volume and 11.7% by value.

Taking specific products which fall within the category Protective Footwear, the new duty structure has resulted in an increase in the amount of duty payable on articles of Rubber Footwear e.g.:

(i) A U.K. manufactured Rubber Yachting boot formerly attracted duty at 12% of the F.O.B. price based on C.A.V.—now attracts duty of 41% of the F.O.B. price.

(ii) On U.K. manufactured All Rubber Golf Shoes (category Protective Footwear) the duty has risen from .56 cents per pair to $1.68 per pair.

The overall effect of the new Tariff Structure has been twofold, inasmuch as it has tended to increase the amount of duty charged on items of rubber footwear and consequently to reduce the volume and value of imports.

The rise in the duty rate would seem to be contrary to the spirit of the G.A.T.T. agreements as it increases tariff barriers rather than leading to their reduction and eventually abolition.

6. *Possible economic effects of concession on Rubber Soled Footwear with Fabric Uppers TSUS 700.60*

Imports of rubber soled footwear with fabric uppers into the United States from the U.K. for the six years 1960 to 1966 are given below:

RUBBER-SOLED FOOTWEAR WITH FABRIC UPPERS

	Pairs	British pounds
1960	109,773	46,337
1961	195,872	62,762
1962	401,568	101,319
1963	371,793	80,404
1964	311,405	83,394
1965	173,318	58,437

From the information we have from our members, the drop in imports for 1965 was due to the uncertainty in the minds of American buyers as to the likely effects of changes in the duty structure and their consequent reluctance to commit themselves to importing U.K. produced rubber-soled footwear with fabric uppers.

We consider that if a concesssion is granted by the Tariff Commission resulting in the abolition of the A.S.P. as a basis for valuation, the effect would be detrimental to imports of U.K. produced rubber footwear with rubber soles if the effect of such a concession was to operate in the same manner as the 1965 revision to the duty on rubber footwear under US. 700.60.

As we have shown above, in that case the rate of duty tended to rise and the volume of imports dropped. We feel that should the Tariff structure for Item 700.60 be alerted in a like manner, duty on rubber soled footwear with fabric uppers would increase and imports drop by volume and value.

7. Conclusion and Submission

The figures below show total imports of rubber footwear and rubber-soled footwear with fabric uppers into the United States for the period 1960 to 1965.

IMPORTS RUBBER AND RUBBER-SOLED FOOTWEAR WITH FABRIC UPPERS

	Pairs	British pounds
1960	307,156	175,786
1961	370,517	167,952
1962	721,247	255,361
1963	549,553	236,589
1964	498,419	192,525
1965	383,441	199,403

We conclude that if the application of a new tariff structure on rubber footwear can result in a reduction of imports to the United States from the U.K. by 33% in volume, and 11% in value—see para 5 above, the introduction of a like tariff structure for rubber soled footwear with fabric uppers is likely to have a similar effect. Thus taking imports under both items on this basis against an average year's imports from the figures given in this para. (7) above, there would be a fall from around 400,000 pairs to 270,000 pairs in volume and from around £200,000 to £160,000 in value. This would be to the detriment of the trade conducted in the United States by members of our Association.

We further consider that, whilst we appreciate that domestic manufacturers of rubber and canvas footwear in the United States would wish to be protected against unfair competition from inports of equivalent products produced in low labour cost countries and in those countries whose manufacturers enjoy subsidies, this situation does not apply to rubber footwear and rubber footwear with fabric uppers manufactured in the U.K. whose rubber and canvas footwear manufacturers do not enjoy subsidies nor conditions of cheap labour.

We note that U.S. annual production of rubber soled fabric upper footwear is increasing steadily from 71 million pairs in 1958 to 166 billion pairs in 1965 and, whilst imports have risen, they only represent a ratio of imports to consumption of 17% in 1965, compared with 59.1% in the U.K. In the light of this we feel that additional protection by means of a revised Tariff structure is not called for at this time, particularly if it mitigates against the liberalisation of world trade.

We, therefore, submit that any revisions that the Tariff Commission might consider in relation to the Tariff structure on TSUS 700.60, should not be contrary to the spirit of the G.A.T.T. agreements and, with a view to liberating world trade, should be aimed at lowering and not raising the rate of duty on imports into the United States.

R. J. May,

Hon. Secretary, Rubber and Plastics Footwear Manufacturers Association.

STATEMENT OF PETER BOMMARITO, PRESIDENT, UNITED RUBBER, CORK, LINOLEUM & PLASTIC WORKERS OF AMERICA, AFL–CIO

Mr. Chairman and members of the committee, my name is Peter Bommarito, International President of the United Rubber, Cork, Linoleum and Plastic Workers of America, more commonly known as the URW. I am pleased to have the opportunity to express our views on, and give our support to, Section 401 (b) of the Trade Expansion Act of 1968.

Much effort has been made on the part of the URW and other interested parties to follow the "progress" of United States trade policy with regard to the American Selling Price system of establishing rates of duty for rubber-soled footwear. This has been especially true since 1965, as spokesmen for the URW have stated our views time and time again before various Congressional committees and to the President of the United States.

It is our feeling that too often trade policies are formulated without regard to the impact upon the individual employees working in an industry. The primary concern of the URW in this matter deals with the devastating impact which recent U.S. trade policy has had upon the employees in the rubber-soled footwear industry.

The Bureau of Labor Statistics reported 24.5 thousand production workers in this industry in 1965, a year in which the ratio of imports to domestic shipments stood at 20.2% (165,741 to 33,363 pairs). By 1966, nearly 1,000 fewer workers were involved in production, 23.6 thousand, and the ratio of imports to shipping jumped to 22.3% as shipments dropped to 157,388 pairs and imports rose to 35,060 pairs. In 1967, the number of production workers dropped further to 20.5 thousand with the ratio of imports to shipments leaping to 29.8%, 150,694 pairs versus 44,659 pairs.

While we recognize that there are many other factors influencing employment in this industry, we strongly feel that these facts and figures support our contention that the decline in employment can be directly tied to the importation of rubber-soled footwear.

In only three short years, 4,000 employees lost their jobs in the rubber-soled footwear industry. This represents a 16.3% decline in employment which we feel can be tied to the 9.1% decline in domestic shipments (15,047 pairs) and the 33.9% increase in imports (11,296 pairs).

In the eight URW Locals which are presently involved in the production of rubber-soled footwear, there has also been a marked decline in our membership. In 1965 there were 12,369 URW members engaged in production in nine URW rubber-soled footwear locals. By 1967 the number of employees had dropped to 10,263, a loss of 2,106 members representing a 17% decline in employment. One URW Local representing 711 members was lost entirely because the company went out of business. Another URW Local engaged in the manufacture of canvas shoes has seen this operation completely phased out within the past year so that only limited amounts of rubber footwear are now produced. The loss in employment in this one local exceeds 600 employees with barely 500 employees still working.

We would also like to point to the employment situation in th B. F. Goodrich plant in Watertown, Massachusetts, which is engaged in the manufacture of rubber footwear. This plant is represented by Local 21914 of the Federal Labor Union. In the past year, employment dropped from 4,800 employees to 2,300 with another drop of 1,300 to 1,500 employees set for the end of July. By the end of this summer, only 800 employees are expected to remain at this plant location.

Let me make one point clear which may not be immediately apparent to the Committee. In many of the communities in which our local unions are located, (this is also true for other companies not organized by URW), the footwear plant is one of the key employers—if not *the* key employer—in that area. These plants are located in cities of less than 75,000 population—many of them substantially smaller. When the job opportunities provided by the footwear plant are declining, his is immediately reflected in the economic life of the entire community.

We feel that these individuals and these communities have already suffered too much as a result of past tariff reductions and that positive steps should be taken to restore some equity and justice to this problem. Therefore, we firmly support Section 401(b) of H.R. 17551 which converts ASP to a rate of 20% plus 25¢ a pair, but not less than 58%, based on foreign value, effective January 1, 1971.

We not only support Section 401(b) of the 1968 Trade Expansion Act because it provides equity in converting ASP, but we also support H.R. 17551, along with other interested parties, because it is obvious that the ASP method of rate setting is ineffective and that retention of such a policy is serving only to antagonize our principal trading partners.

However, because we feel that H.R. 17551 in itself will not provide the final solution to this overall problem, we therefore urge the Committee to also consider and recommend favorable action on the 16 points included in the 1967 AFL–CIO resolution on international trade as set forth in the AFL–CIO's testimony before this Committee on June 13, 1968.

STATEMENT OF ABE FEINGLASS, INTERNATIONAL VICE PRESIDENT, DIRECTOR, FUR AND LEATHER DEPARTMENT OF THE AMALGAMATED MEAT CUTTERS & BUTCHER WORKMEN OF NORTH AMERICA, AFL–CIO

The facts of the shoe and leather industry compel us—not without some regret—to ask an exception to the free trade doctrines which have been part of this country's liberal and labor traditions.

In both industries over the past ten years, there have been heavy surges in imports. In both, there have been dangerous reductions in actual and potential employment levels. In both industries, thousands of jobs, which could have been filled by men and women now locked into unemployment and poverty, have been traded off for purported gains to the capital intensive sectors of this country's corporate structure.

Our first concern here today is with workers in this country's leather industry whom—along with workers in the meat packing, meat retailing and food industries—our Union represents. But we certainly do not propose to ignore the plight of workers in the shoe industry, some of whom are represented by other labor organizations.

It's our best estimate (and we impute no statistical infallibility to available foreign trade statistics) that the *increase* in shoe and leather imports since the 1957-59 period has cost the two industries a total of more than 26,000 jobs.

In the leather industry, U.S. employment averaged 30,500 in 1967. If the level of leather imports had been at the 1957 average ($37.4 million or 5.5 per cent of domestic output), an additional 1,500 workers would have been employed. If the 1957–59 ratio of imports to domestic output of the shoe industry had existed in 1967, that industry's higher demand for U.S. produced leather would have upped tanning industry job totals by close to 2,500 workers. In other words, the tanning industry job loss to imports of leather and to imports of shoes made of foreign produced leather totaled approximately 4,000 or more than 13 percent of 1967's actual employment.

To this toll of leather industry jobs must be added the much larger casualty figure for the shoe industry. Last year's employment in that industry averaged 228,800, with domestic production of 603 million pairs of shoes. Had shoe imports been at the 1967–59 level of 18.9 million pairs instead of the actual 77 million reported, more than 22,000 additional jobs would have been created in U.S. plants of the shoe industry.

Taken together U.S. foreign trade policy over the past decade has resulted in the export—conservatively estimated—of 26,000 jobs. This count includes nothing for the job losses suffered in other sectors of the leather products industry where the flow of imports has been rising toward a flood tide. Current trade policy, including acceptance of various forms of export and import controls operating abroad, has been associated with a loss of at least 30,000 jobs in the leather products industry.

Such estimates, in lack of any statistical certitude, have been made on a minimum basis. We have assumed for example that a dollar's worth of imported leather is equal to a dollar's worth of U.S. produced leather—though foreign leather could have been imported in the first place only if its price a square foot was less than the U.S. price.

Actual shoe import figures have been vastly deflated by eliminating from import totals the enormous quantities of low cost vinyl type shoes imported from Eastern Asia and Japan. Had we followed statistical procedures of shoe and leather industry officials to count one pair of imported shoes as equal to one pair of U.S. produced shoes, our estimate of shoe industry losses would have been increased by a round 20,000 jobs.

The Social Consequences

Beyond question the mounting total of leather and leather product imports have heavily damaged the U.S. leather industry and all who might look to it for employment.

Any national policy which willingly accepts such damage to a labor intensive industry as a "healthy" trade off for gains to prospering capital intensive industry, with capacity for penetrating world markets in spite of tariff barriers, is open to the gravest question.

1. Presumably there is a national interest in preserving the structure of an industry which transforms basic commodities into universally needed end-products. Actual U.S. policy seems recently to have stimulated our export of cattlehides and calfskins and our import of shoes and other products processed abroad from such raw materials. This obviously conflicts with such key national inter-

ests. While we lower tariffs on shoes and leather, we tolerate abroad import barriers and other non-tariff restrictions on the acceptance of U.S. shoe, leather and other basic exports. All this tends to a distortion of the nation's economy. We move to become the world's supplier of sophisticated transportation and electronic equipment. At the same time, we may be losing the power to keep our own feet in shoes. We have shortages of electronic engineers and indignant surpluses of human beings with willing hands for which we can find no work.

2. The concept that somehow the shoe and leather industry deserve whatever lumps they may absorb on world markets because they have been "technologically backward"—that "competition from abroad will force progress"—is a dangerous fallacy.

If the tanning industry has not been at the forefront of technological progress, certainly it is not because of any lack of competition. Of that there has been, according to industry testimony, an abundance. In fact, the complaint is that bitter competition has forced "entrepreneurial returns" down so low that little if any earned surplus is available for any long-term research and development programs. If true, this negative trend is being accented heavily by increasing competition from abroad. Little cash has been available for such "frills" as research and development.

Conversely, it would appear that technological development in American industry has been most emphasized in those sectors where concentration is heaviest and competition by implication the least lively. Strong correlations appear to exist between the ability to administer prices and those fat cash flows which make possible, though by no means inevitable, impressive research expenditures. There is also a group of major corporations who have benefited from multi-billion dollar research and development projects financed directly or indirectly by the Federal Government.

The shoe and leather industries have had access neither to such private nor to public financing for research and development. They are in this the deprived and underprivileged of the industrial community. Increasing competition from abroad will serve only to intensify chaos and backwardness in these industries.

Shoe and Leather Jobs

A national policy which would accept massive shrinkage in the shoe and leather industry in return for advantages abroad to more sophisticated or massive sectors of U.S. industry will intensify already grave national problems of poverty and unemployment. It increases demand for skilled and highly trained labor already in short supply and slacks off already low demand for the relatively unskilled and untrained. This would perceptibly narrow any margins of hope for the unskilled, the unemployed, and the poor. An unrealized cost of our present trade policy is the national burden of relief for the unemployed, and the bitter social price we all pay in their alienation.

In the present labor forces of the shoe and leather industries, minority groups from large cities and workers in areas of rural poverty preponderate. For them the sacrifice of present and future job possibilities could mean only proliferation of personal tragedy and social tensions.

It should be manifest that expansion, rather than shrinkage of jobs in such industry, should be an immediate goal of national policy.

The Consumer Interest

The traditional free trade model, from the economic text books, assumes a reduction of price levels from the lowering of tariff barriers. Production at the point of greatest efficiency brings goods to consumers at lowest levels, say the academicians.

No such reduction in retail shoes prices seems to have been associated with lowered tariff barriers and surging shoe imports to this country.

Price changes for leather, shoes at wholesale and shoes at retail since 1964 have run as follows:

[1957–59=100]

	Leather prices	Wholesale shoe prices	Retail shoe prices
1964	102.9	108.5	110.0
1965	108.1	110.7	112.9
1966	121.1	118.2	119.6
1967	110.5	122.2	125.5

Source: BLS Wholesale and Consumer Price Indexes.

If shoe imports have moderated the trend toward higher shoe prices, such salutary influences fail to show in these official figures. In fact, the level of shoe prices in the Consumer Price Index has risen more rapidly than any other of its components with the exception of medical care.

These data and other more detailed figures suggest a price structure both at the wholesale and retail level which has been steadily administered at higher levels year by year. In fact, a decline in leather prices of 10.6 points between 1966 and 1967 associates with an *increase* of wholesale shoe prices of 4.0 points on the Index—had such a decrease in shoe industry raw material prices been passed on fully to wholesale prices, the 1967 wholesale index would have been at a level of 112.7 or 9.5 points below its actual level for the year.

Obviously, pure market forces have not been determinants of either wholesale or retail shoe prices.

We suggest here a hypothesis which in our opinion deeply deserves investigation. This based on two known economic facts. Major shoe producing corporations in this country are also operators of wide-ranging networks of retail shoe stores. Many of them are also operators of shoe manufacturing facilities outside the boundaries of these 50 states.

The United Shoe Corporation for example (1967 sales $195.3 millions) established in 1967 a Women's Import Division. Its reported production in 12 countries of 2,000,000 pairs of shoes. In addition, four factories are operated near Florence, Italy in behalf of the Marx and Newman Division of United Shoe.

The giant Genesco Shoe Company (1967 sales $872.1 millions) operates eight shoe facilities in Canada, Mexico and Peru. In addition its operations, including only those more than 50 per cent controlled, are located in France, Italy and Belgium.

The Shoe Corporation of America (1967 sales $264 millions) lists subsidiaries in Canada and Italy.

It may be suggested that such companies with powerful connections over the world's shoe industry, together with control of much of this nation's retail shoe outlets, may be able to control the import of shoes for the maximization of profits under an administered price system rather than for the minimization of prices.

This Committee would do well to pry into this particular area. From what producers abroad has the surge of imported shoes come, and at what real price—there and here? Who controls such companies? What have been their major retail outlets here? What has been their price policy? Why have shoe prices increased at a pace beyond that of any other basic commodity?

The facts of the shoe industry development in recent years suggests that the benevolent rationale of total free trade has run afoul of the today's world economic realities. The illusions of the classical economists have been transmuted by producers who are not controlled by, but do in fact themselves control, the markets in which they sell.

Trade policy has, it might appear, served only to provide the giant producers of the shoe industry with a license to shift jobs away from these fifty states where Wage-Hour Laws and rising worker expectations hold sway to more "favorable" economic climates abroad. There shoes produced at far less than $1.60 an hour or the $2.01 an hour idustry 1967 wage can be shipped and sold at current "market" prices to American consumers. This is an ideal corporate situation of sales in areas of the world's highest wages for good produced in areas of the lowest wage.

Thus the shoe industry, whose history includes a series of leap frog maneuvers from state to state in search of the slackest labor markets, has now leaped into the future with the same process going forward from country to country over the earth's rounded surface. Such an hypothesis has within it certainly elements of the credible.

Quotas

It has been estimated that two thirds the members of the human race own nothing which could be identified as a pair of shoes. With such a potential, markets everywhere for shoes should be expanding at a rate to bring everywhere steady and dramatic expansion to the shoe industry and to its levels of employment.

We do suggest as part of this developmental process the need to maintain in this country also an expanding shoe industry. The national interest could not be served by policy which in the long term would mean atrophy for shoe and leather production in the country. The Congress which has enacted Wage-Hour

Legislation should not allow its wholesale violation under the bright aegis of "free trade". Job opportunities for the poverty stricken should be expanded rather than contracted as a matter of basic policy

Until such a time as progress abroad maximizes market demands in those areas and wage levels for the workers of such industry—and our own aid in this cause has gone to workers in many countries—we ask the establishment of quotas on shoe and leather imports. Such quotas should allow for substantial imports and should seek the encouragement of competition in style, quality and innovation for the welfare of the world industry. But they should be set at levels consistent with the explansion and the progress of our own industries and the welfare of the men and women who look to them for a livelihood.

TABLE I.—SHOE PRODUCTION, IMPORTS AND EMPLOYMENT

	U.S. production (pairs)	Imports [1] (pairs)	Employment
1967	603,000,000	77,000,000	228,800
1966	646,000,000	55,500,000	237,200
1965	629,000,000	40,000,000	233,400
1964	613,000,000	38,600,000	230,500
1957–59 average	607,000,000	18,900,000	242,900

[1] Excluding rubber and vinyl type shoes valued at less than 50 cents a pair produced primarily in Eastern Asia and Japan.

Sources: U.S. production and imports, U.S. Department of Commerce; employment, BLS series for all employees.

TABLE II.—JOBS LOST TO IMPORTS

	Percent imports to U.S. shoe production	Total job loss to imports
1967	12.8	29,917
1966	8.6	20,399
1965	6.4	14,938
1964	6.3	14,521
1957–59	3.1	7,530

TABLE III.— LEATHER PRODUCTION AND IMPORTS

[Dollar amounts in thousands]

	U.S. shipments	U.S. imports	Percent imports to shipments
1967	[1] $680,950	$70,060	10.4
1966	790,725	74,996	9.5
1965	720,946	66,998	9.3
1964	658,240	52,664	8.0
1957–59 average	[1] 676,086	37,413	5.5

[1] Dollar volume of shipments of 1967 and 1957 estimated on basis of Federal Reserve Board index of leather production adjusted by BLS wholesale price index for leather.

TABLE IV.—LEATHER INDUSTRY EMPLOYMENT AND JOBS LOST THROUGH LEATHER AND SHOE IMPORTS

	All leather tanning employees	Jobs lost to leather imports	Jobs lost [1] to shoe imports	Total
1967	30,500	3,172	3,202	6,374
1966	31,600	2,940	2,212	5,152
1965	31,600	2,940	1,643	4,503
1964	31,400	2,500	1,156	3,656
1957–59 average	38,000	2,090	965	3,055

[1] Based on Tanners Council estimate that 82% of leather is used for shoes.

STATEMENT OF IRVING W. ALLERHAND, VICE PRESIDENT, CONSOLIDATED INTERNATIONAL TRADING CORP., NEW YORK, N.Y.

ASP to be abolished

ASP was applied to rubber footwear by Presidential proclamation on February 1, 1933. In practice, ASP results in the assessment of a duty which is anywhere from 2½ times to 4 times greater than the generally accepted and proper forms of tariffs. Even its proponents admit that ASP has never been generally accepted as a means of assessing duties. It is particularly objectionable to our principal trading partners, and this issue almost caused the complete collapse of the Kennedy Round negotiations.

The abnormally high level of protection of American Selling Price valuation of canvas footwear originated from an effort to equalize the labor cost differential that existed between the United States and such low labor cost areas as Japan, Hong Kong, and Korea, in the production of footwear with canvas uppers and rubber soles. In the 1930's *all* vulcanized canvas top, rubber soled footwear was produced by hand beginning with the cutting of the tops to the boxing of the final product. The labor factor during this era was inordinately great, since so many different operations went into making up the final product such as cutting, hand lasting of the upper parts, individual cementing of the rubber tapes, etc.

Technological developments of a radical nature have rendered most of the hand work obsolete. One of the most exciting innovations in the canvas footwear industry was introduced several years ago in the form of molding machines that put all the rubber components, formerly assembled by hand in individual operations, onto the upper in one operation. While this machine was in itself a striking alteration, truly revolutionary change came when the Desma Machine Company invented and developed equipment that now can inject the side foxing tape and the bottom soling of the shoe all automatically, and, furthermore, can do this operation in two different colors. The resulting process is a complete substitute for what was formerly done by hand. This new machine process has reached its peak of perfection in the last two years. The largest U.S. rubber producers, B. F. Goodrich, Uniroyal, Endicott-Johnson, Converse Rubber, Gold Seal Rubber, Bata Shoe Company, and many others, have been converting their manufacture of canvas shoes to these machines. The cost of production in the United States by this method is actually less than that experienced in Japan, Korea, and Taiwan, because the plastic raw materials are less costly here than abroad. Under such circumstances, the United States canvas shoe industry hardly needs or deserves the enormous special protection afforded by ASP. Particularly considering that the imported product must also bear the cost of overseas freight, port handling charges, and miscellaneous inland freight charges.

Ever since ASP was imposed on certain rubber footwear, various articles have been imported which were not subject to the ASP basis of appraisal, even though they were canvas footwear with rubber or plastic soles. Such articles include canvas upper footwear with rubber soles of a fashion type, the likes of which were not produced in the United States because of their unique character or construction. Since there were no similar articles produced here, the ASP method of evaluation was not applicable. These articles have historically been imported and appraised strictly on the basis of a 20% ad valorem duty, and there is absolutely no reason why and elimination or conversion of ASP should result in these articles being subjected to any higher rate of tariff than has heretofore been applied.

We most strenuously oppose the legislation's proposed compound rate and minimum ad valorem duty of 58%. It has been suggested that the legislative proposed rate derives from a Tariff Commission report of July 1966 in which they found that, based on 1965 statistics, ASP duties converted to straight ad valorem rate would average approximately 58%. This bill's proposed formula is not a logical development from this Tariff Commission determination. In the first place, the statistics used were taken from 1965 imports, and it is now the third quarter of 1968. Any knowledgeable person concerned with this problem, whether he be U.S. producer, American importer, or government official, is aware that later than 1965 statistics will show the average converted rate for imports to be much lower than the 58% figure. It is believed that the average converted rate is between 12 and 20% less than that found in 1966.

Of even greater importance is the fact that the Tariff Commission did not suggest or recommend any formula that would put a floor of 58% duties on rubber footwear with assessments running as high as 83% on some imported articles.

How can the authors of this legislation not only justify a continuation of a uniquely discriminatory high rate of duty, but actually be proposing to increase the tariff which has heretofore been assessed under ASP.

Furthermore, it is significant that, while ASP was not eliminated on rubber footwear, and an even higher duty may be suggested, the United States at Geneva made substantial reductions on almost all other imported apparel products. The inexplicable special favors accorded the U.S. rubber footwear producers have not escaped the attention of competing domestic apparel producers. Genesco, a leading U.S. footwear manufacturer, was so struck by the disparity in treatment between rubber footwear and all other apparel products that it was moved to comment in July 1967, after the Geneva conference, that, "Apparently the rubber industry gets preferred treatment in Washington."

Domestic Producers' Arguments Fallacious

In their testimony before this Committee last week, spokesmen for the U.S. Rubber Manufacturers Association and the Rubber Workers' Union voiced bleak appraisals of the economic well-being of their industry. Both the past record and the present condition contradict their grim assertions. As a whole, the record shows that the domestic producers have enjoyed consistent and spectacular growth in their sales of rubber footwear since the time that the imports, through style and design innovations, sparked the explosive growth of the U.S. rubber footwear market from a mere 55 million pairs a year in the mid-50's to over 200 million pairs today. We wish to stress that in the past six years the U.S. importers' share of this expanding market has dropped at least 100% from 26% to 13%. It bears repeating that the rubber footwear industry which has enjoyed this extraordinary level of duty protection has expanded its market tremendously and yet seeks even higher duties, while the leather footwear market, which has been stable, has seen much of its competition receive tariff reductions.

Examining briefly the condition of individual U.S. producers gives the lie to their claims of hard times. Enclosed is a copy of an Endicott-Johnson ad announcing their plans to double production of "its best-selling sneaker", because at their existing sneaker plant at Johnson City they have "been working 24 hours a day, six days a week, and we still can't give the service to today's market demands". [Enclosure in committee files.] Endicott-Johnson's early July report for the first six months of this year showed a 19.8 percent increase in earnings from operations. *Footwear News*, July 4, 1968.

Regarding the highly successful and the most diversified company in the industry, B. F. Goodrich, a recent report predicts strong earnings prospects for 1968. This study was prepared by the respected securities company, H. Hentz, long known to have a sophisticated corporate analysis department. Hentz notes that Goodrich realizes a major portion of its earnings from footwear. Specifically, the analysis notes "Goodrich's industrial products and footwear are expected to show continued growth. All told, overall profits of these three divisions, industrial activities, *footwear*, and foreign operations, seem likely to register a somewhat larger increase in 1968 than the 5% improvement expected in 1967."

Samplings of reports on other American footwear producers by financial analysts are most revealing.

Randolph Manufacturing Company, Randolph, Massachusetts: "Sales have shown steady expansion from year to year, rising from about 12 million to 1962 to well over 25 million in fiscal 1966. Operations have been profitable. With increasing sales, it has been necessary to expand facilities * * *."

Servus Rubber Company, Inc., Rock Island, Illinois: "Over the years sales have generally trended upwards. * * *."

Uniroyal, Inc., Naugatuck, Connecticut: "This company holds a prominent position in its industry. Operations over the years have been profitable."

LaCrosse Rubber Mills, Inc., LaCrosse, Wisconsin: "* * * Operations have been consistently successful and well financed. The increased popularity of tennis and basketball shoes for general year has stimulated the businesss."

Cambridge Rubber Company, Cambridge, Massachusetts: "This company has operated successfully over a period of years. * * * It has been indicated that the company has increased its volume steadily with operations currently consistently profitable."

It is necessary to set the record straight concerning several claimed "setbacks" suffered by the U.S. producers. The domestics complain bitterly about a legislative sleight of hand which increased the duty on protective rubber footwear 300% from an ad valorem rate of 12½% to 37½%. It is inconceivable how anyone can complain that tripling of duty on your competition's goods is a "setback". The record will reveal that in 1962 the Treasury Department, after extensive analysis, issued a well-reasoned legal opinion determining that certain protective footwear should not be subject to American Selling Price by any fair reading of the specific language of the presidential proclamation extending ASP to certain rubber footwear articles. Following this decision the U.S. producers sought to have the Congress legislate an extension of ASP to this particular class of goods. When the Senate Finance Committee rejected any extension of the objectionable ASP duties, the American producers maneuvered an increase of the 12½% ad valorem rate to *sixty percent (60%)*. In conference, this Committee rebelled at the exorbitant 60% and upon your insistence the new duty was set at 37½%. It cannot be overlooked that the U.S. producers were a party to all these proceedings at every step. There were no hearings and no opportunity at any stage for the American importers to present their case for a reasonable tariff on these articles.

The next action which the domestics call a "setback" was the announcement in February 1966 by the Treasury Department of guidelines for determining the American Selling Price of rubber footwear. The U.S. producers argue that this amounted to "changing 30-year-old guidelines" and that the change was tantamount to a 35% tariff cut. These allegation are baseless. From the time that imports became a factor in the American market until 1962, rubber footwear had been improperly assessed ASP duties on the basis of the *highest priced* similar article produced and sold in the United States. Before 1966, there had never been any "guidelines" but, rather, only administrative practices which the Treasury Department and the Bureau of Customs have publicly stated were "clearly wrong". Following the prescribed procedures under the Administrative Procedure Act, the Treasury Department conducted an extensive three-year investigation in which all interested parties were given innumerable opportunities to present facts, views and arguments. The record will show a consistently complaining domestic industry, but one that would not provide the hard data that the government needed to reach an early and proper finding. In fact, after the regulations were proposed and before their adoption, the domestics held so many meetings with Treasury and made so many demands that the adoption was delayed for six months. Contrast these facts with the current charge that the guidelines were issued without any examination of the domestics' case. In order to set the record straight, it is useful to examine exactly what the Treasury Department, speaking through Commissioner of Customs Johnson, has said about the guidelines.

"Rubber-soled footwear is appraised on the basis of American selling price pursuant to a proclamation by President Hoover (T.D. 46158) in accordance with section 336 of the Tariff Act of 1930. That proclamation relied on a Tariff Commission finding that such valuation was necessary to equalize differences in costs of producing such footwear in competing countries with the cost of producing similar footwear in the United States. Although other merchandise appraised on the basis of American selling price, such as coal tar products, has always been compared to the most similar article bearing the closest American selling price, the practice developed (but without any published regulation or ruling to that effect) to appraise rubber-soled footwear on the basis of the highest priced similar article produced and sold in the United States.

"Customs has received many complaints over the period of several years that its practice of appraising rubber-soled footwear was unjustified, inequitable, and inconsistent with other appraisement procedures. On the basis of a full-scale investigation undertaken to determine whether reconsideration and revision of appraisement procedures in this area were warranted, it was concluded that the practice of using the highest priced United States products as our yardstick was clearly wrong and that we were not complying with the Presidential mandate that 'similar' articles offered in the United States' principal markets should be used as a basis for comparison. Judicial precedents clearly indicate that price is a factor to be considered in determining similarity for purposes of the customs valuation statutes, incluidng the American selling price statutory basis of valuation. If all other factors bearing on similarity are equal, an article which is closest in price to another article will ordinarily be the acceptable substitute in the marketplace. This has been the practice in all areas of customs valuation other than American selling price of rubber-soled footwear.

"The guidelines approved on January 24, 1966, which had been published in proposed form in the Federal Register in August 1965, in order to give both importers and domestic producers full opportunity to express their views, revise our appraisement practiecs with respect to rubber-soled footwear by applying the same valuation principles to this type of merchandise as are applied to all other products which we appraise on the basis of 'similar' merchandise."

Complaints by rubber workers' union officials about declining employment attributable to imports cannot be reconciled with the following facts. In the last few years many of the American producers have established facilities in Puerto Rico. Not only such firms as Converse Rubber but even the giants of the industry, B. F. Goodrich and Uniroyal, have been lured to Puerto Rico by the abundance of low-cost labor.

In addition to the move to the island rubber footwear producers have relocated facilities in the United States. Where once production was concentrated in New England, the trend today is to wider dispersal, as evidenced by the new footwear plants of Uniroyal at Elgin, South Carolina, and B. F. Goodrich at Lumberton, North Carolina.

If employment, as claimed, has dropped in New England, it must be attributable to the shifts to Puerto Rico and the U.S. South, as well as the increasing automation discussed earlier in this statement. Only these circumstances could explain the complaints of Northern producers that there is a labor shortage. Endicott-Johnson of New York "still suffers a labor shortage, a condition that has plagued the company for more than 2 years." *Footwear News*, Nov. 1967. A Lowell, Massachusetts, company needing to hire 200 more persons, moved to Puerto Rico because, despite newspaper and radio ads and cash awards, "we found it difficult to get five people, much less 200." *Wall Street Journal*, Dec. 1966.

Declining employment and labor shortage can only mean that machines have replaced people and also that there is a growing resistance to employment under the difficult and trying conditions of rubber plants.

Perhaps the most shallow complaint of all is the domestics' claim that they have lost their export market to the Japanese, Koreans, etc. When one asks what they have done to keep and expand foreign markets, the suspicion arises that the answer is nothing. While most of the U.S. producers hide their production costs as if the nation's security was at stake, there is reliable data from one source. Ramer Industries of Brooklyn, now allied with Firestone, has publicly broken the code of silence and boasted that with their new machines they can produce canvas footwear for less than the Japanese imports cost. This boast was proven when Ramar sold a woman's sneaker for $0.78, the lowest offering in the world market. It is interesting to learn that the footwear producers are doing so well that "the Footwear News index, comprised of ten leading footwear companies, has climbed 79-percent over the past year." *Footwear News*, July 4, 1968.

Combine price advantage with the great American salesmanship and one would expect booming foreign sales if any effort was forthcoming. The effort must be lacking.

The absence of trying to sell abroad is not restricted to industry, but is present in government alike. In the early days of the Kennedy Administration there was created in the Commerce Department an office of Export Expansion. Unfortunately, the position was filled for only two years. If the United States hopes to preserve and expand its favorable trade balance, it is imperative that the President create a position of "Export Czar".

This office should have all the powers and prestige of a cabinet officer, ambassador or special assistant to the President. The staff and office budget should be commensurate with the responsibilities. This job should go to an individual with experience in industry and finance and known and respected here and abroad.

RUBBER-SOLED CANVAS-UPPER FOOTWEAR—SHIPMENTS, IMPORTS, APPARENT CONSUMPTION, AND RATIOS, 1958–65[1]

[1,000,000 pairs]

Year	Mainland shipments	Puerto Rico shipments	Total U.S. shipments	Imports	Percent imports to total shipments	Apparent consumption	Percent imports to consumption
1958	70	(2)		12	17.0	82	14.0
1959	75	(2)		13	17.5	88	15.0
1960	84	(2)		30	36.0	114	26.0
1961	103	(2)		39	38.0	142	27.0
1962	136	(2)		47	35.0	183	26.0
1963	148	(2)		35	24.0	183	19.0
1964	162	(2)		25	16.0	187	13.5
1965[1]	166	12	178	22	12.5	200	11.0

[1] Office of Special Representative for Trade Negotiations selected 1965 statistics as the basis for the conversion of American selling price to a minimum 58 percent ad valorem duty, with some rates as high as 83 percent.
[2] Not available.

Note.—Exports negligible (approximately 200,000 pairs).

Source: Bureau of the Census and Rubber Manufacturers Association, Inc. Adjusted by Imported Footwear Group, American Importers Association.

Mr. BURKE. Mr. Campbell.

STATEMENT OF WILLIAM C. CAMPBELL, SECRETARY, INDUSTRIAL RUBBER PRODUCTS DIVISION, RUBBER MANUFACTURERS ASSOCIATION; ACCOMPANIED BY RICHARD KAPLAN, COUNSEL, DIVISION ON IMPORTS

Mr. CAMPBELL. Mr. Chairman, my name is William C. Campbell. I am the secretary of the Industrial Rubber Products Division of the Rubber Manufacturers Association, Inc.

I am accompanied by Richard Kaplan of the firm of Lamb and Lerch, and the firm is counsel to the division on imports.

We first want to note that we filed a written statement with the committee, and we urge that you make this written statement a part of the record.

Mr. BURKE. The entire statement will be made part of the record.

You may summarize it.

Mr. CAMPBELL. Thank you, sir.

In addition to the four companies which are listed in our statement, we have a new member, Ideal Roller Division of W. R. Grace, and three companies are affiliated with us, although not formally members. Durkee-Atwood of Minneapolis, Gates Rubber Co., Denver, Colo., and Aeroquip of Mishawaka, Ind.

We are not so glamorous as the mink farmers, or so noticeable as the people who are interested in footwear and handbags, but we do believe that our products are widespread, and effect virtually every family in the country.

The Industrial Rubber Products Division is comprised of those who make finished rubber products, many of which are used in machinery. Some of them are also used around the home. These products include hose, conveyor belts, power transmission belts, rubber covered rolls, sheet rubber, and matting, and tire treads.

The power transmission belts include fan belts for cars, and hose includes the hose that might be found in automobiles, includes garden hose, fire hose, gas pump hose, and many other specialties.

As a matter of fact, hose is one of the most significant products made from rubber, and it is second in sale volume only to rubber tires.

This is in truth an American industry, because it largely uses synthetic rubber, which is made here in this country, and cotton and other textiles are widely used in industrial rubber products. There is a rising use of plastics in these porducts, replacing synthetic rubber.

There are very few exports of this kind of product. The exports are minimal. Most of the consumption is here, and most of the purchasing of the parts is here.

It is a truly domestic industry. One particular reason why there are so few exports is that most of these products are ordered by rigid specifications. There must be a dialog between engineers representing buyer and seller, in many cases, in fact, in most cases involving these products. These are highly sophisticated products which require a great deal of engineering, and highly skilled labor.

We want to note that this is our first appearance before your committee. We are pleased to be here and honored that you would give us the opportunity. This reflects the rising concern by our industry about imports.

On the very last part of our presentation is a summary of the six points we wish to make, and I just want to elaborate. I will elaborate on two of them.

The first point is that we would urge the administration's proposal to amend the test of eligibility for trade and assistance to firms and workers should also be made to include assistance to industries in the form of tariff adjustment.

Second, that the President should not be redelegated authority to reduce tariff rates in the Kennedy Round of trade negotiations.

A third point is that dumping investigations should be instituted without the need for an aggrieved domestic industry's establishing foreign market prices.

We would like to say that we frequently have brought to our attention the possibility of dumping actions, and it becomes extremely difficult for us to get the prevailing prices of this kind of product in the country, where they are made, this kind of imported product. The Treasury Department could do this, and could of their own volition institute dumping investigations, when they see a need.

Fourth, customs marking laws should be more effectively administered. We have brought to the attention of the Treasury Department more than 20 different instances of customs violations, in the last 6 or 7 years.

We think that there is a widespread ignoring of the obligation under Federal statutes to imprint on imported industrial rubber products the county of origin, permanently and indelibly. We think that frequently, the marking is easily removed, and in fact, can be rubbed off with a fingernail. These products are subject to very hard wear, and we think that such a marking should be carefully specified by law.

We would further urge that shipments of such products, which in the past have been the subject of orders out of Treasury, and where in fact they have been found to violate the laws in the past, that such shipments should be carefully scrutinized.

As we mentioned earlier, this is an engineered product, and companies spend a great deal of time and money in research and development, in order to establish a reputation for this kind of product. The character and reputation of the industry can be severely damaged if inferior imported products are in fact being sold without being so marked.

The whole American industry can suffer. This is particularly true in hose and conveyor belt.

We would urge that domestic industries and manufacturers should be afforded a more effective remedy against unfavorable customs administration, and finally, that Congress should reavert and exercise its constitutional power regarding customs and trade matters, on a permanent basis.

With that, we conclude, sir, and thank you very much.

(Mr. Campbell's prepared statement follows:)

STATEMENT OF WILLIAM C. CAMPBELL, SECRETARY, INDUSTRIAL RUBBER PRODUCTS DIVISION, RUBBER MANUFACTURERS ASSOCIATION, INC.

My name is William C. Campbell. I am Secretary for the Industrial Rubber Products Division of the Rubber Manufacturers Association, Inc. of 444 Madison Avenue, New York, New York 10017. The members[1] of the Industrial Rubber Products Division manufacture such products as V-belts, other power transmission or drive belts, conveyor belting, rubber mats and matting, rubber covers for printers and other types of rollers, rubber and/or plastic hose, and sheet rubber for gaskets, gasketing material and various other industrial applications.

I. THE ADMINISTRATION'S PROPOSAL TO AMEND THE TEST OF ELIGIBILITY FOR TRADE ASSISTANCE TO FIRMS AND WORKERS SHOULD ALSO BE MADE TO INCLUDE ASSISTANCE TO INDUSTRIES IN THE FORM OF TARIFF ADJUSTMENT

Title III of the Trade Expansion Act of 1962 is entitled "Tariff Adjustment and Other Adjustment Assistance". It provides for the following three types of trade assistance:

1. Tariff Adjustment Assistance—adjustment of the duty or imposition of some other form of import restriction on the competing imported article which is found to be causing injury to a domestic industry (the so-called escape-clause relief).
2. Assistance to Firms—technical assistance, financial assistance, and/or tax assistance to an individual firm found to qualify as having been injured by imports of a foreign competitive article.
3. Assistance to Workers—training, or allowance payments to workers of a firm in which unemployment or underemployment is found to have been caused by imports of competitive articles.

Under the provisions of the Trade Expansion Act of 1962 the test of eligibility for Firms, Workers and Industries adversely affected by competing imports was identical. The President in his message submitting H.R. 17551 to the House acknowledged that this test "has proved to be too rigid, too technical, and too complicated" thereby rendering the entire trade assistance program ineffective. Not one of the more than 20 petitions for trade assistance filed by domestic industries, firms, or workers since 1962 was found to have qualified for such assistance under the unrealistically strict criteria contained in the TEA of 1962. The administrations bill recognizes that the criteria that (1) Trade Agreement concessions must have been the *major* cause of the increased imports of an article into the U.S. and that (2) such increased imports must have been the *major* factor in causing, or threatening to cause, serious injury to the domestic workers, firms, or industry producing an article like or competitive with the imported

[1] See appendix for a list of the member companies of the Industrial Rubber Products Division of the Rubber Manufacturers Association, Inc.

article, must be relaxed. It should be sufficient that the increased imports were in part caused by the concessions and that such increased imports were a factor in causing, or threatening to cause, serious injury to the domestic industry.

However, proposed H.R. 17551 proposes to amend, the admittedly ineffective criteria, only with respect to assistance to firms and workers. It is conspicuously silent with regard to the criteria for obtaining Tariff Adjustment Assistance for injured domestic industries (the so-called escape clause). In fact in identifying Title III the bill omits any reference to "Tariff Adjustments Assistance".

Prior to 1962 the escape clause provided a somewhat effective form of relief for domestic industries which were being seriously injured as a consequence of an actual or relative increase in the quantity of competing imported products. By adding trade assistance for domestic firms and workers to the existing escape clause, Tariff Adjustment Assistance, for domestic industries, the Trade Expansion Act of 1962 was supposed to provide a greater benefit for domestic interests, business as well as labor. However, the strict and ineffective qualifying standards or criteria introduced by the T.E.A. of 1962, not only nullified the effect of such allegedly increased benefits but, also destroyed the effectiveness of the previously existant escape clause.

In proposed H.R. 17551, the administration now suggests the adoption of new criteria for trade assistance to firms and workers. However, H.R. 17551 would leave the proven, and admittedly ineffective criteria of the T.E.A. of 1962, applicable to trade assistance for domestic industries. Such a result would be unconscionable. It would permit individual firms and workers to obtain temporary assistance in the form of stop-gap economic relief while permitting the continuation of the destruction caused to an entire domestic industry as a result of excessively increased imports of a competitive foreign product. The root cause of the injury to the industry, the firms, and the workers would be permitted to persist since the injured domestic industry seeking Tariff Adjustment Assistance would have to satisfy the unworkable criteria contained in the T.E.A. of 1962. Unless the criteria is changed for all types of trade assistance—including Tariff Adjustment Assistance available to domestic industries—the assistance provisions will continue as sterile as they have been and domestic industries which have suffered injury as a result of trade agreement concessions will continue to suffere such injury without recourse to the tariff adjustment relief which the Congress, since 1951, has obviously intended be available to them.

We emphatically urge that the ineffective test of the 1962 act be completely abandoned, and that a more workable test, similar to that proposed in H.R. 17551 for firms and workers, be applied also to Tariff Adjustment Assistance for domestic industries.

II. THE PRESIDENT SHOULD NOT BE RE-DELEGATED AUTHORITY TO REDUCE TARIFF RATES NOT REDUCED IN THE KENNEDY ROUND OF TRADE NEGOTIATIONS

The Trade Expansion Act of 1962 gave the President the authority to reduce rates of duty on imported articles by as much as 50% of the rates which were in effect on July 1, 1962. In the Kennedy Round of Trade Negotiations the President exercised most of his authority to reduce duty rates.

Pursuant to Sections 221 and 223 of the Trade Expansion Act of 1962, hearings were held in 1963–64 and again in 1966 by both the United States Tariff Commission and the Trade Information Committee. These hearings purported to give interested persons an opportunity to present their views as to whether certain articles should be considered by the President for the purpose of granting concessions at the then forthcoming Kennedy Round trade negotiations. Along with many other industries the Industrial Rubber Products Division submitted its views to both the United States Tariff Commission and the Trade Information Committee. Along with these other industries the Industrial Rubber Products Division never did and probably never will know the conclusions which either of the government agencies drew from the hearings. The hearings and their results are kept secret. The partcipants have no way of knowing whether the facts and arguments which they presented were properly analyzed. We do know that the United States duties on most industrial rubber products were cut during the Kennedy Round negotiations. We have no way of knowing whether they were cut in conformity with the reports of the Tariff Commission and/or the Trade Information Committee or whether they were cut despite the findings made in those reports.

We believe that the results of such hearings, preparatory to trade negotiations, should be made public, or at the very least should be made available to the participants in such hearings. Otherwise the determinations, entering into the Executive's decision to exercise its delegated power to grant tariff reductions remain undisclosed. If policy dictates such matters be kept secret until after the completion of the pending trade negotiations, then the public and the Congress would be better served if full disclosure had to be made even *after* the negotiations were completed and the reports had been acted upon. In this way, at least, the cloak of secrecy would be removed and Commission and Committee reports and the negotiator's determinations would be exposed to scrutiny by the concerned public and the Congress.

We believe that the reductions in the Kennedy Round were the maximum which could be made consistent with the advice of the Tariff Commission and the Trade Information Committee. If such duties should not have been reduced under the authority of the T.E.A. of 1962, they certainly should not be reduced in the near future before the results and effect of the Kennedy Round concessions have been realized and fully felt.

Why should the Congress continue to surrender its control over duties by giving the President blanket authority to reduce duties subject to some problematical eventuality—if it should become necessary for the U.S. to grant compensatory rates. If in the future, there is some reason to grant such compensatory rates, why shouldn't the administration then seek specific authority from Congress to make specific duty reductions. In this way, control of duty rates would be exercised by those to whom such control belongs, the Congress. Historically, the Congress has given considerably more consideration to the interests of domestic business and labor before causing any tariff reductions than has the Executive. Furthermore, we believe that before embarking on a program of negotiating away non-tariff barriers the President should be required to advise the Congress and the public of the nature and significance of these existing non-tariff barriers.

III. DUMPING INVESTIGATIONS SHOULD BE INSTITUTED WITHOUT THE NEED FOR AN AGGRIEVED DOMESTIC INDUSTRIES' ESTABLISHING FOREIGN MARKET PRICES

For there to be dumping under the terms of the Antidumping Act it is necessary for the article to be sold for export to the U.S. at a price less than its fair value. A domestic industry, which seeks to have the Treasury Department determine whether a product is being sold for a particular country in violation of the antidumping laws, must present evidence of how and at what prices the product is sold in the country of exportation. Only after the Treasury Department is convinced that there is sufficient evidence to support a dumping finding, does it proceed to conduct its own investigation of the market practices which prevail in that foreign country.

Very often the domestic industry does not have sufficient access to the foreign market to determine the fair market value of the product or to determine the price at which the product is sold to the U.S. In many of those cases the domestic industry believes that dumping is going on because of the low price at which an imported article, which it encounters in U.S. markets, is being sold. The domestic industry, suspecting that the foreign shippers are trying to capture the U.S. market even at a loss, wants the Treasury Department to use its superior investigative facilities to examine the actual foreign market circumstances and determine whether the product is being dumped.

So long as the price of an imported product in the U.S. is such as to raise a legitimate question whether it is being dumped, the Treasury Department should have to conduct a full investigation to determine whether dumping exists. It should not be incumbent upon a domestic industry to compile foreign market costs and other information. Such facts can and should only be obtained by the Treasury Department.

IV. CUSTOMS MARKING LAWS SHOULD BE MORE EFFECTIVELY ADMINISTERED

Pursuant to the provisions of Section 11.8 of the Customs Regulations and of Section 304 of the Tariff Act of 1930, as amended, imported articles, in general, must be *legibly*, *indelibly*, and *permanently* marked in a conspicuous place so as to indicate to an ultimate purchaser in the United States the English name of the country of origin of the article. During the early 1960's the domestic industrial rubber products industry became concerned with the increasing appearance in United States markets of imported industrial rubber products which were either unmarked or if marked were marked in such an impermanent manner as to allow the easy removal of the marking from the imported article. The industries concern was brought to the attention of the Commissioner of Customs. Consequently the Commissioner issued rulings which set forth the specific manner in which imported hose, belting, V-belts, and sheet packing had to be marked in order to comply with the requirements of the Tariff Act and the Customs Regulations.

The industrial rubber products industry is especially susceptible to injury by unmarked imports. Domestic industrial rubber products, such as hose, V-belts, etc. are manufactured in conformity with critical industry-wide specifications. The sale of unmarked imports, often passed off as United States products, which do not comply with such standards has an extremely deleterious effect upon the reputation of the entire domestic industry and upon the acceptability of these industry-wide specifications.

The customs marking laws are administered by Customs Commodity, or Import Specialists (previously known as Customs Examiners before the Bureau's recent reorganization) in each of the many Customs Ports of Entry throughout the United States. These highly trained, experienced and generally knowledgeable customs field men are supposed to determine whether the articles contained in an importation are marked in accordance with the law. Section 304 of the Tariff Act stipulates that an additional duty of 10% ad val. be imposed upon any improperly or unmarked imported merchandise. Section 304 also provides a criminal penalty for persons intentionally defacing, destroying, removing, altering, etc. any marking required by law. However, in current actual practice the Rubber Commodity Specialists (as well as other Customs Import Specialists) seldom if ever get to actually see or examine the imported merchandise. Import Specialists face an ever increasing work load—which necessarily increases as the volume of imports increases—and are apparently being encouraged to rely more and more upon the entry papers filed by importers and less upon actual examination of the imported merchandise. In most, if not all, cases the only physical examination of imported merchandise occurs when a random sample is inspected by a Customs Inspector.

An Inspector is not a specialist in a commodity line as is an Import Specialist nor is he as highly trained, experienced, or knowledgeable in the interpretation or application of the customs laws. The Inspector is probably engaged in inspecting thousands of different types of imported articles. It is far less likely that he will be aware of the specific type of marking necessary for imported industrial rubber products. Some types of articles are properly marked if they have attached a paper tag or label indicating the name of the country of origin—not so industrial rubber products.

Under Customs procedure, domestic manufacturer's of industrial rubber products have no official way of knowing whether improperly marked imported industrial rubber products are being erroneously permitted entry into the United States. However, when improperly marked goods are imported, domestic manufacturers often become aware of the fact by coming into contact with such goods in the market place. During the past five years the Industrial Rubber Products Division of the Rubber Manufacturers Association, Inc. has, from time to time, filed complaints directing the Commissioner of Customs' attention to at least twenty specific instances in which improperly marked imported industrial rubber products were being sold by importers or distributors in the United States. In some instances there was no evidence that the goods had ever been marked, properly or otherwise. In other instances impermanent marking, such as paper labels or removable paint and ink, had been removed from the goods after importation and prior to sale in the United States. In still other instances, short lengths of unmarked rubber hose were being sold in the United States; the short lengths having been cut from longer lengths which had been imported with a single marking at one end. The Bureau Rulings anticipated such an attempt to avoid the effect of the marking law and required long lengths of imported hose to be permanently marked at regular intervals. However, the imported articles seen by the domestic manufacturers in each of the above instances were not marked in compliance with the Bureau Rulings.

With respect to most of these complaints, the Bureau of Customs subsequently advised us that their investigation confirmed the facts and that an importer was selling unmarked goods in the United States. We were assured that the importer had now been informed of the type of marking required on such imported goods and that the marking requirements would in the future be strictly enforced against that particular importer. To the best of our knowledge no marking duties were assessed and no penalties invoked against any of these importers. In fact, complaints from domestic manufacturers regarding unmarked imported goods being offered for sale in United States markets, have recently increased. Some foreign suppliers frankly state in their promotional material that their products are marked in such a manner that the marking can be easily removed after importation. It appears that in the absence of the strict enforcement of existing marking laws, through the imposition of penalties or of the additional 10% duty provided for unmarked goods, importers will be encouraged to continue to purchase and sell improperly marked goods such as industrial rubber products.

We believe that the best, if not the only way to effectively administer the marking laws is to have the import specialists—the officials responsible for determining whether imports of their particular line of commodities are properly marked—physically examine the imported merchandise. Where, as is the case with industrial rubber products, there have been confirmed complaints regarding importations of improperly marked goods, all future importations of such goods should have to be subjected to close scrutiny and examination by the Import Specialists involved. Such examination could be accomplished by legislation specifying the manner in which industrial rubber products should be marked or requiring an actual public stores examination of the imported merchandise by the Import Specialist. Unfortunately there is no existing procedure whereby domestic manufacturers or domestic industry can compel customs officers to strictly enforce the marking laws.

V. DOMESTIC INDUSTRIES AND MANUFACTURERS SHOULD BE AFFORDED A MORE EFFECTIVE REMEDY AGAINST UNFAVORABLE CUSTOMS ADMINISTRATION

Whenever an *importer* is aggrieved by Customs' administration of the marking laws—or by any other law—he can avail himself of a ready remedy by filing a protest (an appeal in the case of questions of value) against the action taken by the Customs officer. The protest is reviewable by the United States Customs Court. If the Court agrees with the importer the action taken by Customs is overruled and the imported merchandise (even if imported years before the Court's decision) is treated in accordance with the decision of the Court (favorable to the importer). No such effective remedy is available to a domestic manufacturer who is injured as a result of Customs' administration of the law in a manner which is contrary to the clear Congressional intent and meaning of that law.

The only recourse which an injured domestic manufacturer has against improper administration of the customs law is to utilize the so called American Manufacturers protest or appeal procedure provided for in Section 516 of the Tariff Act of 1930, as amended. Under the procedures set forth in Section 516 of the injured domestic manufacturer must formally request the Secretary of the Treasury to furnish him with the official position regarding Customs' treatment of designated imported articles. After receiving the Secretary's answer the domestic manufacturer may file a complaint which the Secretary in turn must answer. If still dissatisfied the domestic manufacturer has thirty days in which to file a notice of dissatisfaction and intention to protest. The Secretary must then publish his decision and thereafter give the domestic manufacturer notice of importations of the designated merchandise made after the Secretary had published his ruling. The domestic manufacturer is then notified of the first of such entries which is liquidated and has thirty days in which to file his protest. After the protest is filed it is sent to the United States Customs Court where it is set down on a future docket so that the domestic manufacturer can obtain judicial review of the alleged improper customs action. After the case is tried, the parties are usually allowed time for the filing of briefs and after a suitable lapse of time to enable the Court to adequately review the matter, a decision is rendered. During this entire procedure, which can easily and often does take two years, the law continues to be administered to the detriment of the domestic manufacturer. If the Court decides in favor of the domestic manufacturer the effect of the decision is only prospective; it does not affect the treatment of merchandise imported before the decision, even though such merchandise was imported after the domestic manufacturer commenced his proceeding under Section 516.

What is needed is an expeditious and effective remedy for domestic manufacturers injured by the improper administration of Customs laws with respect to imports of merchandise of a class or kind manufactured, produced, or sold at wholesale by them. It seems to us that the easiest way of allowing domestic industry an effective remedy against unfavorable customs administration without unduly prejudicing the rights of importers would be to grant to the United States Customs Courts jurisdiction over an action by interested domestic manufacturers in the nature of a mandamus or certiorari against the acts of Customs officers. Such a form of action should also constitute a procedure whereby domestic manufacturers could compel Customs officers to enforce such existing laws as the marking laws, previously discussed.

VI. CONCLUSION

Perhaps the most necessary innovation in Customs and Trade matters is for Congress to take a fresh look at the principles accepted by the Administration as the basis for its trade policies and a reassertion by the Congress of its constitutional authority to determine, for itself, and to oversee the oepration of our nation's trade policy and its Customs laws. Congress should have some machinery for exercising closer direct supervision over Customs and Trade matters. The past practice of delegating broad powers over these matters to the Executive has led to our present unfavorable balance of trade. When non-commercial, government financed, shipments are separated from U.S. export statistics our balance of trade is exposed as being clearly unfavorable. The deficit becomes even more pronounced when adjustment is made for the difference in the costs included in U.S. export statistics from those costs included in U.S. import statistics. The time has come for Congress to take a hard look at the course of our Customs and Trade policy and to put a halt to the wholesale delegation of such responsibility to the Executive.

APPENDIX

MEMBER COMPANIES OF THE INDUSTRIAL RUBBER PRODUCTS DIVISION OF RUBBER MANUFACTURERS ASSOCIATION, INC.

Company and address

Ace Rubber Products, Inc., 100 Beech St., Akron, Ohio 44308
Acme-Hamilton Manufacturing Corp., P.O. Box 361, Trenton, N.J. 08603
American Biltrite Rubber Co., Inc., Boston Woven Hose & Rubber Division, P.O. Box 1071, Boston, Mass 02103
American Rubber Manufacturing Co., 1145 Park Avenue, Oakland, Calif. 94608
Ames American Co., North Easton, Mass. 02356
Bearfoot Sole Co., First & Water Sts., Wadsworth, Ohio 44281
Beebe Rubber Co., 20–22 Marshall St., Nashau, N.H.
Buffalo Weeving & Belting Co., Inc., 260 Chandler St., Buffalo, N.Y. 14207
Buxbaum Co., 1212 Seventh St., S.W., Canton, Ohio 44707
Carlisle Tire & Rubber Division, Carlisle Corp., College & C Sts., Carlisle, Pa. 17013
Cincinnati Rubber Manufacturing Co., Franklin Ave., Cincinnati, Ohio 45212
Continental Rubber Works, 2000 Liberty St., Erie, Pa. 16506
Tyer Rubber Corp., 392 Pearl St., Malden, Mass. 02148
Crown Products Co., Ralston, Nebr. 68051
Dayco Corp., P.O. Box 1004, Dayton, Ohio 45401
Dunlop Tire & Rubber Corp., P.O. Box 1109, Buffalo, N.Y. 14240
Easthampton Rubber Thread Co., 26 Payson Ave., Easthampton, Mass. 01027
Electric Hose & Rubber Co., 12th & Dure Sts., Wilmington, Del. 19899
Firestone Tire & Rubber Co., 1200 Firestone Parkway, Akron, Ohio 44317
Garlock, Inc., 402 E. Main St., Palmyra, N.Y. 14522
Globe Manufacturing Co., 221 Pleasant St., Fall River, Mass. 02722
Goodall Rubber Co., 572 Whitehead Rd., Trenton, N.J. 08604
B. F. Goodrich Industrial Products Co., 500 South Main St., Akron, Ohio 44318
Goodyear Rubber Co., 2400 Third St., San Francisco, Calif. 94107
Goodyear Tire & Rubber Co., 1144 E. Market St., Akron, Ohio 44316
Hewitt-Robins, Inc., 666 Glenbrook Rd., Stamford, Conn. 06906
Home Rubber Co., 30 Woolverton Ave., Trenton, N.J. 08605
Jomac Roller Co., Inc., 2218 W. Lake St., Chicago, Ill. 60612

Karpex Manufacturing Co., Inc., 1436 E. 19th St., Indianapolis, Ind. 46218
McCreary Tire & Rubber Co., P.O. Box 749, Indiana, Pa. 15701
Moreland Corp., York & Fitzwatertown Rd., Willow Grove, Pa. 19090
National Hose Co., West Clinton St., Dover, N.J. 07801
Parker, Stearns & Co., Inc., 300 Sheffield Ave., Brooklyn, N.Y. 11207
R.C.A. Rubber Co., 1833 E. Market St., Akron, Ohio 44305
Rapid Roller Co., 5050 S. Kedzie Ave., Chicago, Ill. 60632
Raybestos-Manhattan, Inc., Manhattan Rubber Division, 61 Willett St., Passaic, N.J. 07056
Rubber Rolls, Inc., 1905 Boulevard of the Allies, Pittsburgh, Pa. 15219
Stowe Woodward Co., Division of S–W Industries, Inc., 181 Oak St., Newton, Mass. 02164
Swan Rubber Co., 436 E. Mansfield St., Bucyrus, Ohio 44820
Uniroyal, Inc., 1230 Avenue of the Americas, New York, N.Y. 10020
Vail Rubber Works, Inc., 521 Langley Ave., St. Joseph, Mich. 49085
Wild & Stevens, Inc., 5 Connecticut St., Woburn, Mass. 01801

Mr. BURKE. Any questions? Mr. Battin.

Mr. BATTIN. I just mention, I am sure it is in your statement, but you didn't mention it in your oral testimony, how much of an import market is there? You say we don't export much, but how much is actually coming in, in competition with what your association members produce and sell domestically?

Mr. CAMPBELL. The volume of these products in imports at the present time is small. However, some of these products are specialized, and the volume in a given kind of hose, or a given kind of power transmission belt, might be very high. The overall volume is small, sir.

Mr. BATTIN. Where is it coming from? What country is originating a competition?

Mr. CAMPBELL. Japan, Western Europe, for the most part.

Mr. BATTIN. Western Europe? France, Germany?

Mr. CAMPBELL. Germany, British Isles, for the most part.

Mr. BATTIN. Who hasn't been labeling properly?

Mr. CAMPBELL. The importers of hose and conveyor belts have been the subject of our complaints thus far.

Mr. BATTIN. The importers. Not the manufacturing country?

Mr. CAMPBELL. Whether or not the product leaves the factory in the country of origin properly marked, we don't know. What happens in hose in particular, let's say fire hose, that is sold in 50-foot lengths. It comes in very long lengths, and it is cut up here, and couplings are attached, in the warehouse of a distributor who specializes in imports, and in that warehouse, it is possible the marking is removed.

The only actual knowledge we have is that much of it comes into the American market with the markings removed. Exactly whether it leaves the factory abroad that way, or the markings are removed after it arrives here, I can't say.

Mr. KAPLAN. If I may.

Mr. BATTIN. Yes.

Mr. KAPLAN. In answer to or in furtherance to your question, rather, there is no question but that the manufacturers are also involved in this marking violation problem, at least in one of the instances, where the RMA brought to customs attention the fact that there was some improperly marked merchandise coming into the country.

Together with the specific complaint and the facts of the particular importation, we did bring to customs' attention a letter from a manufacturer which, unbeknownst to that manufacturer, had really come into the hands of one of the members of RMA, which advertised both its hose and its belting products as being marked in such a manner, so that the marking with the name of the country of manufacture can be readily removed prior to merchandising.

That was a very, very specific advertisement.

Mr. BURKE. This would indicate a conspiracy to remove the markings?

Mr. BATTIN. What action has been taken on these complaints that you made?

Mr. KAPLAN. Customs, is almost all of the instances has advised the RMA that the complaint was well taken, that the particular importation was in fact not marked consistent with customs requirements.

This, of course, was after the fact. This was considerably after the importation, and in fact, in some cases, after it had entered the marketplace, and that they apprised the particular importer of the marking laws, directed his attention to those laws, which I submit the importer had a duty to know about before he imported, and that it won't happen again, or shouldn't happen again.

There has only been one instance of any penalty that was attempted to be assessed against a particular importer. That was on a west coast importation, where it was turned over to the U.S. attorney's office, for criminal penalties, which were never processed to its completion.

It also ended up in a reprimand, but a more formal reprimand, to the importer.

The main problem stems from the fact that the importation of these rubber products, which should be and are subject to specific marking requirements, are not subject to specific physical examination upon entry into the country, by experts of the customs officials, who are familiar with the marking laws.

These officials are import and commodity specialists at various ports, and customs has deviated considerably from what had been an age-old practice of full physical examination of most imports. This is a great rarity, today, the actual examination being done.

Mr. BURKE. Do they make spot checks?

Mr. KAPLAN. It is spot checks, done not by the import specialists who are commodity men of a fairly high Government grade, with great qualifications, and who are well familiar with all regulations pertaining to their particular commodity. They don't conduct the majority of these spot checks.

It is rather conducted by customs inspectors at the wharves, which are a different breed of customs man, a very, very hard-working customs man, but not as high paid a specialist as the import specialist, and they sample quite a product sampling of various types of merchandise, and it is impossible to expect them to know all of the laws pertaining to all of the particular and unique commodities.

Mr. BURKE. Have you sent a letter to your Congressman or U.S. Senator bringing this matter to their attention?

Mr. KAPLAN. This is a matter that has been brought to the attention of the customs authorities on numerous occasions, as well as the Treasury Department. This is the——

Mr. BURKE. Sometimes, you might get a stronger reaction if you wrote to your Congressman or Senator, and bring it to their attention, and then they can bring it up to the agency.

Mr. KAPLAN. I think it is an excellent suggestion, Mr. Chairman. This is one of the reasons why this industry, which has no great concern with volume imports, taking away its markets, has chosen to come before this committee at this time.

It is only one of the reasons. The other reasons are, I think, set forth very specifically in the written statement, but it is one of them.

Mr. BATTIN. You might not be concerned now, but you are smart to be here now, because you could well become concerned in the future.

Mr. KAPLAN. This is just reason, sir.

Mr. BATTIN. Many people appear before the committee who a few years ago didn't have any import problems, that as a matter of fact, as short a time ago as 1964, or 1962, were in here testifying for a bill that they are not modifying, just a short time later.

Mr. BURKE. Well thank you. I wish to thank both of you on behalf of the committee.

You have offered an excellent appearance here, and you are to be commended. Because it is your first appearance here, and it made an impression.

Mr. CAMPBELL. Thank you, sir.

Mr. KAPLAN. Thank you for the opportunity, sir.

Mr. BURKE. The committee stands adjourned now, to meet at 10 o'clock tomorrow morning.

(Whereupon, at 5:55 p.m., the committee adjourned, to reconvene at 10 a.m., Thursday, June 27, 1968.)

FOREIGN TRADE AND TARIFF PROPOSALS

THURSDAY, JUNE 27, 1968

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

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

The Chairman. The committee will please be in order.

I understand our colleague from Texas, the Honorable George Mahon, is delayed in his own committee and will appear later in the day.

We do have our colleague from Texas, the Honorable Graham Purcell. We are pleased to have you with us this morning, Mr. Purcell. You are recognized.

STATEMENT OF HON. GRAHAM PURCELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Purcell. Mr. Chairman, I appreciate the opportunity to be here and will try to be very brief. I am here for one reason only, that is in support of my bill, H.R. 10697, whose provisions are identical to many bills that have been introduced by several of my colleagues.

I introduced this bill, and appear before you now, because the domestic oil industry is declining; drilling production is off, and drilling rigs are being stacked and sold for scrap. This is a clear indication of the seriousness of the trouble that our domestic oil industry is in.

I furthermore strongly believe that if this industry is in trouble, then so is the Nation, because in this particular situation, our national security is being compromised by this state of affairs.

In my home State of Texas, there were 56 percent fewer wells drilled in 1967 than there were in 1956; and thus far this year, drilling is again down nearly 10 percent below the 1967 levels. I view this as directly effecting our ability to subsist without outside oil in the event we have to.

I have asked myself what has been the cause of this decline and, after examination, I can say a major cause has been the faulty administration of the oil imports program by the Department of the Interior, with continual subverting of the 12.2 ratio.

We all know that this ratio was arrived at through careful study and a great deal of compromise; and I am not seeking to do away with petroleum importation; we must continue to trade with the rest of the world; we cannot hope to export, without allowing reasonable importation.

These factors were taken into consideration prior to the formulation of this ratio. Furthermore, I think that we should stick to the ratio, as originally agreed upon; that is what my appearance here is all about.

I, and many others, are tired of the way that "exceptions" have continually appeared in the administration of the quota. I am concerned, that Canadian production is never measured, only "estimated" and that Canadian importation into this country has consistently exceeded that "estimate" during the last 6 years.

If petroleum products come into the United States, then they should be included under the ratio. No other approach makes sense. Furthermore, I can see no reason to determine that petrochemical feedstocks, or petrochemical endproducts should not be included under the ratio. Arguments contrary to this feeling have failed to convince me otherwise.

There are many other factors that I could point to that logically would justify the crying need for Congress to once again clarify our intent in this matter through enactment of H.R. 10697 and similar bills. The Department of the Interior must be made to understand that it simply cannot decide arbitrarily, first, what they want to do, then seize upon the "easy" answer of declaring more importation to be "outside the ratio."

However, I do not want to trespass too strongly on this opportunity to call my concern to your attention.

I have all that I need in the way of evidence to justify my feelings that a better approach is needed. Every time I return to the 13th Congressional District of Texas, I see new signs that a vital industry is being allowed to suffocate on the glut of imported petroleum that the Department of the Interior has chosen to say represents an "exception" to the ratio.

Thank you, Mr. Chairman.

The CHAIRMAN. I appreciate your coming to the committee.

Our next witness is Mr. Matsunaga. Mr. Matsunaga?

Mr. Price of Texas? Come forward, Mr. Price. We are pleased to have you with us this morning, the Honorable Bob Price, a Member of Congress from Texas, and you are recognized, sir.

STATEMENT OF HON. BOB PRICE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. PRICE. Thank you, Mr. Chairman. First, Mr. Chairman, I would like to commend you and the members of this committee for holding these hearings. Not only is the oil import program of vital importance to the economy of the district I represent, but agricultural imports, especially meat, textiles, and dairy products, have had a serious impact on farm prices.

The hearings on trade and tariffs are welcome developments toward correcting a serious problem.

In addition to legislation to assure compliance with the oil import program as it was intended, I have also sponsored bills to revise the Meat Import Act; another to establish quotas on dairy product imports; and also a textile import bill.

For the sake of brevity, I will confine my remarks to the oil import problem but would like to be on record as endorsing the statements made to the committee earlier by the American National Cattlemen's Association and the Texas & Southwestern Cattle Raisers Association.

Mr. Donald C. Watson, president of the Panhandle Producers & Royalty Owners Association, in his statement, which he will present on the oil import program, has illustrated the plight of independent oil operators and the declining state of the oil drilling and producing industry in the Texas Panhandle.

I am well acquainted with the conditions he describes and fully subscribe to his recommendations.

In May, I testified before the Subcommittee on Mines and Mining of the House Interior and Insular Affairs Committee and would like to direct the attention of the chairman and members of this committee to the report of those hearings. And I would like to offer the same recommendations to this committee that I made to the Interior Subcommittee.

About a year ago, I testified in hearings held by the Secretary of the Interior on the proposed import allocations for Puerto Rico which have subsequently been granted. Last December before the first of those allocations was announced by the Secretary, I addressed a letter to him in which I asked a number of questions about the justification under the oil import program for the approval of such allocations. In that letter, I said:

> When hearings were held on the Hess quotas in May, it was opposed by a number of Members of the Congress. If my memory serves me, it was opposed by all elements of the petroleum industry, except Hess.
>
> It was supported by the government apparatus, the taxi drivers, the florists, the Chamber of Commerce and the hotel people in the Virgin Islands. How such "witnesses" would bring to bear such persuasion, resulting in an action that has brought confidence in the import program to a new low, is a matter which, to say the least, is filled with intrigue.

The Secretary's reply was dated December 14 and the closing paragraph said:

> I expect to announce decisions on at least some of the Puerto Rican applications immediately and will be glad to discuss any questions you may have with respect to them. I hope this letter will help you respond to your constituents who have written about the Hess allocation.

And he did announce them immediately—in fact that same day, and left for Puerto Rico where he participated in the dedication ceremony of Phillips Petroleum Co.'s new petrochemical facility there.

In his speech at the dedication, Secretary Udall was quoted as saying:

> The Phillips Puerto Rico decision was one of the most difficult and controversial decisions I have been called upon to make as Secretary of the Interior.
>
> I chose to cast my lot with the people of Puerto Rico—and to accept the severe criticism that followed—because I felt to do otherwise would thwart the most logical and most beneficial hope for industry-leased economic growth on this island.

He said his decision was justified by the added employment it would provide Puerto Ricans, the quickening pace of industrial development on the islands with attendant economic benefits, and the coupling of these advantages with conservation of the "natural and primitive beauty of the mountains, the sparkling sand beaches, and beautiful blue waters of this beautiful Caribbean island."

And he has since approved other plants in Puerto Rico—one for a 60,000-barrel-per-day crude oil import allocation as feedstock for another core crude unit to sustain petroleum and petrochemical facilities to be constructed by Sun Oil Co.

I wish to point out that I am not criticizing Phillips Petroleum Co., Hess Oil Co., Sun Oil Co. or any other company, but rather the circumvention of the purpose and intent of the oil import program in granting these allocations.

As I understand it, the mandatory oil import program was established by the President under authority of the national security clause of the Trade Agreements Extension Act following a report of the Special Committee To Investigate Crude Oil Imports, in which the committee found, among other things, that imports of crude oil derivatives and products "threaten to impair the national security."

The program, while far from perfect, was well conceived and, taken as a whole, served the Nation well until 1965. But for the past 3 years the program has undergone almost continuous change through concessions that have been granted that are in no way related to the original purpose.

It is obvious today that the administration of the program has wandered far afield. Exceptions to its basic rules have been granted by administrative decisions without regard to the explicit authority and intent of the program and in spite of overwhelming objections by the great majority of those most directly affected.

There are three overriding reasons why Congress needs to write some specific guidelines into this program.

1. The domestic oil and gas industry is being systematically dismantled personnelwise by the administration of this program. Last year for the fourth year of the past 8 years less crude oil was discovered than was produced. Discovery of new reserves is running at only one-half the rate that the Department of the Interior says we will need by 1980.

2. The Suez crisis of last year clearly illustrated that all American citizens have a vital stake in maintaining our reserve capabilities and reversing this trend of growing dependence on foreign oil. The military alone is now consuming more than a million barrels daily—far more than the peak period of World War II.

3. Aside from the economic impact on one of our vital domestic industries and the threat of losing our self-sufficiency posture, net oil imports constitute the largest single factor in the U.S. balance-of-payments deficit.

This figure is running close to $2 billion a year and if the Secretary of the Interior further increases imports outside the 12.2-percent ceiling, the potential increase under authorizations made by the amended Presidential proclamation could add another $300 million a year. This is clearly an area in which the deficit could be substantially reduced rather than increased.

Mr. Chairman, I believe that a reassessment by Congress of the real intent of the national security clause of the Trade Agreements Extension Act is long overdue. Under present circumstances, I believe this committee should make a searching investigation of the basic concept on which the mandatory oil import program was established and determine whether the program as now amended and administered does threaten to impair the national security.

Specific guidelines to assure compliance with the program as it was intended could put the program back on the track to restore confidence and vigor to a vital but ailing industry.

H.R. 10696, my bill, and more than 40 similar bills now before the Ways and Means Committee would serve that purpose.

Thank you, Mr. Chairman for the opportunity to appear.

The CHAIRMAN. Thank you, Mr. Price, for bringing your views to the committee. I commend you for doing so. Any questions?

Mr. PRICE. Thank you.

The CHAIRMAN. Our next witness is the Honorable Omar Burleson, also from Texas. Mr. Burleson, we appreciate having you with us today and you are recognized.

STATEMENT OF HON. OMAR BURLESON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. BURLESON. Mr. Chairman and members of the committee, I express to you my appreciation for the opportunity of appearing before you. I shall be brief. On May 22, 1967, I introduced H.R. 10178, and later introduced H.R. 10705 on June 8, 1967.

This measure has to do with strengthening and closing loopholes in the foreign oil imports program.

Mr. Chairman, unless provision is made to prevent circumventions of the oil import program, at the heart of which is the national security provision, it will become meaningless. As a matter of fact, the import ratio of 12.2 percent to domestic production has already been circumvented to the point that the limitation is greatly exceeded.

Although the oil import program is a separate program from our General Trade Act, time being of the essence in this session of the Congress, it would seem advisable if the committee would see fit to make the proposal or proposals above referred to a part of legislation which you may produce out of these hearings.

As a matter of fact, it is my understanding that our colleague, a member of the committee, Mr. Herlong, will, in the near future, introduce a general bill which will bring the separate oil imports program, the separate textile import program and others under a single measure. I expect to join him in the introduction of such a measure.

Mr. Chairman, I ask your permission to have included in the record at this point a statement by the West Central Texas Oil & Gas Association.

Thank you for hearing me.

(The statement referred to follows:)

STATEMENT OF D. L. McDONALD, PRESIDENT, WEST CENTRAL TEXAS OIL & GAS ASSOCIATION

Mr. Chairman and members of the committee, the 1,100-member West Central Texas Oil & Gas Association is very much concerned with the present status of the domestic petroleum industry, particularly the independent segment of this industry. This is an association made up *entirely* of independent oil men, with *no major company* participation, operating in a predominately independent oil province of west-central Texas.

It is easy, for us who still remain in industry, to see that our independent ranks are declining in number each year, month and day. We, as independent oil men, are not able to show an annual increase in profits of 22 to 27% as most major oil companies do each year. Our percentage would be on the other side of the ledger in a like amount. Our activities have declined 45% since 1959 and this is not in keeping with a healthy and vigorous domestic oil industry. Since the decline in activity we have lost 80% of our labor force for drilling rigs and in this immediate area we have lost 75% of our drilling companies due to forced sell outs, mergers, etc. We are certain that these same conditions exist in other oil producing areas of the United States where independent oil men are the predominant oil producers. Members of the committee it is now time to face the awful truth. If the conditions mentioned above are not reversed in the very near future you will lose that segment of the domestic industry that historically has drilled 85% of the rank "wildcat" exploratory wells in this nation and has contributed so much to the oil reserves of this nation.

Members of the committee forget for one minute that we are oil men and class us as Americans through and through. We are concerned as you are concerned for a nation that must be energy strong as this is the basis for our whole defense system. We are and will continue to be an oil deficit nation unless the downward trend in exploratory wells is not halted.

We in West Central Texas Oil & Gas Association believed at one time that the mandatory oil import program would maintain a healthy and vigorous domestic oil industry and would safeguard our national security. Recently events have proved that neither is being achieved. The loopholes and special exemptions that have been granted in the program these last two years have shown that the independent oil producers cannot exist in an economic climate made acceptable to only a few. We are not only the independent segment, we are the *risk element* of this industry, who, when a dry hole is drilled do not have marketing, refining, pipelining and foreign crude reserves to rely on to replace the deficit created by dry exploratory wells. Provided we have a fair economic climate in which to operate we would be able to search for and produce our pro-rata share of the nation's crude oil reserves but further dismantling and deteriorating the mandatory oil imports program as is happening now will only cause less exploratory activity which is so vitally needed and needed immediately to reverse this downward trend.

We urge the House Ways and Means Committee to investigate *every aspect* of the administering of the imports program to see why the intended results of the program are not being achieved. If the people of this great nation were fully aware of our crude oil reserve status and our deliverability of these reserves, particularly to district V (West Coast) they would all appear before this committee tomorrow.

Unfortunately most people are only concerned with what gasoline cost at the pump and not whether we have the reserves discovered and in storage to keep our nation strong as it should be.

Again members of the committee, we independent oil producers have our backs up against a granite cliff and cannot recede farther if we are to stay in business.

Ladies and gentlemen this is a sad commentary on a segment of the petroleum industry and a nation that we hate to and should not have to editorialize to awaken our Congress.

The CHAIRMAN. Thank you for sharing your views with us. Are there any questions?

The Honorable Edwin E. Willis, of Louisiana, is our next witness. Come forward, Mr. Willis, you are recognized.

STATEMENT OF HON. EDWIN E. WILLIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. WILLIS. Mr. Chairman, it is a pleasure to appear before you today to present for the committee's consideration an excellent statement submitted by the Honorable John J. McKeithen, Governor of the State of Louisiana. Like Governor McKeithen, my purpose in appearing here today is to urge that every sympathetic consideration be given to the proposition that this Nation needs a vigorous and active domestic oil industry if it is to provide the American industry and the American economy in general with a guaranteed power supply. I am here to suggest that the petroleum industry cannot perform this essential task in face of substantial imports of foreign petroleum products.

With the view in mind of not being repetitious of the excellent presentation which has been prepared by Governor McKeithen, I ask the committee's permission at this point to present that statement in behalf of the Governor. Mr. Chairman, I urge that the committee consider this statement carefully, and give active consideration to his excellent arguments in making up your minds concerning this most important issue before you. For my own part, I endorse the Governor's statement and associate my own views and position with his.

(The statement referred to follows:)

STATEMENT OF HON. JOHN J. MCKEITHEN, GOVERNOR, STATE OF LOUISIANA

Mr. Chairman and Members of the Committee: I greatly appreciate the opportunity to present to you my thoughts on a question which is of overriding national concern, and of particular importance to Louisiana. That is the necessity to maintain reasonable limits on the importation of foreign oil to the end of encouraging the search for, development and availability of domestic petroleum supplies adequate to meet the needs of our country in any emergency, at any time, in any place.

It is my conviction that should our country ever lose its position of self-sufficiency in petroleum fuels it will have lost its position of strength as a world power. Events still fresh in our minds, which disrupted the flow of 10 million barrels daily of Middle East oil to Free World markets in the summer of 1967, attest to the grim realities which would face our country and its citizens should we choose a course leading to irretrievable dependence on remote and vulnerable petroleum supplies.

As Governor of our second-largest oil producing state, I felt compelled to state my views for two reasons: The first is that the Congress has the basic constitutional duty and responsibility to weigh carefully the impact of imports of strategic and critical materials, such as petroleum, upon our ability to maintain adequate domestic supplies of such materials—and, where the evidence supports the need, to legislate safeguards which are required for our national security.

Secondly, going beyond the imperative need to see to it that we are never without adequate defense fuel supplies within our own control, there are large areas of our country where the economic activity of entire communities—and indeed of entire states—are dependent upon a healthy, growing petroleum producing industry. Louisiana is such a state. Petroleum production is our primary natural resource. It is our largest single industrial employer. It is the largest single source of revenue to our state govenment.

In reference to my first point, I wish to recognize and to commend this committee for the wise thought and helpful action it has devoted in the past to defining and implemening a national policy as to imported oil. In the Defense Amendment which this Committee wrote into the Trade Agreements Act of 1955, there was ample authority to effectively limit petroleum imports in the interest of national security. This was not a direct implementation of policy, however; it was a delegation of this authority to the Executive branch. When this authority was used to establish the Mandatory Oil Import Program, in March 1959, all who had devoted energy and thought to the problem had reason to expect that it was, at last, resolved.

Indeed the Mandatory Oil Import Program has been of tremendous importance in preventing the total collapse of the domestic oil producing industry. When it was implemented, our country was headed full gallop toward irreversible dependence on foreign oil. The program has postponed that grim day, but its effectiveness in serving our national security in the future is now in great doubt. This doubt now exists because those responsible for administering the program have departed from the singular purpose intended by Congress, the assurance of adequate defense oil supplies, to improvise a complexity of special treatments serving economic, social and environmental objectives having no relationship to national security.

Throughout the petroleum industry, among larger companies as well as the smaller independent producers, there now exists a lack of confidence that the important program—oriented more and more to serving special purposes unrelated to our security—can effectively serve its national security objective on a long-term basis. This concern is reflected in the Congress, where some 46 House members and 29 senators have sponsored legislation to provide specific guidelines for limiting imports in the future.

Because I share this concern, Mr. Chairman, I urge this committee to give serious consideration to H.R. 10701 by Rep. Edwin Willis of Louisiana and a companion measure by Rep. Joe Waggoner of Louisiana. Similar proposals, I might point out, are sponsored in the Senate by both of the members from Louisiana.

This legislation is not in any sense radical protectionism. It would not roll back the clock in our trade in petroleum. It would simply put into law the existing import ratio which applies under the present Adminstrative program. It would reaffirm the Congressional policy of maintaining a fair but firm relationship between imports and domestic production. It would permit imports to grow as domestic oil production grows. It simply would prohibit actions, in the future, which would result in disproportionate increases in imports which would unnecessarly extend our dependence on foreign oil, with the result of further depressing our already severely depressed rate of oil exploration, drilling and development.

This reaffirmation by the Congress of an essential national energy policy would eliminate the uncertainty which now characterizes the administration of the import program. It would provide a dependable guideline as to imports upon which the domestic industry could plan its future activities. It would retain flexibility permitting continued special treatments within the overall limitations.

Such action would in no way compromise existing policy; rather, it would only foreclose administrative actions which have tended to undermine and weaken that policy. We still would import oil in the range of 2,500,000 barrels daily; oil, in fact, would continue to be our largest single export, dollar-wise. Oil imports, even under this proposal, would continue in such volume as to be the largest single deficit item in our unfavorable balance of payments deficit, causing a net dollar outflow of about $2 billion annually.

It is doubtful that any other nation in the world having an adequate supply of such a critical defense material as petroleum would permit displacement of its home industry to the extent which we have, particularly when its domestic industry was reporting consistent declines in exploration, drilling, and in finding and developing new petroleum resources. It is my conviction that if we are to have adequate petroleum supplies for the next emergency, then it behooves us now to eliminate existing doubts as to our oil import policy by enacting firm guidelines for the future.

We have had a new demonstration in the past year of the necessity to maintain a healthy, vigorous oil producing industry able to meet the needs of our country in any situation. In the Middle East crisis, the flow of oil moving from the Arab nations was disrupted. To help fill the resulting supply gaps, the domestic industry in the United States—but primarily in Louisiana and Texas—was able to increase production by 1,000,000 barrels daily. So far as the American oil consumer was concerned, there was no oil supply crisis. Had we been dependent upon Middle East oil, however, we would have been confronted with an internal crisis of monumental proportions.

In the situations which exist throughout the world today, it is clearer than ever that we would be courting disaster to extend our dependency on foreign oil further. The vital necessity of adequate domestic oil to our security is so obvious that I will not comment further upon it, except to point out that the domestic industry in the United States is not now healthy and growing. It is exploring less, drilling less, and finding less oil. The lack of confidence which results from the lack of a firm oil import policy is not the only factor; but it is one contributing factor.

Writing the import standards which already have acceptance into law would, therefore, seem but a small price to pay to help assure the adequacy of our petroleum supplies in the next worldwide oil emergency.

While the primary concern of the Congress is our defense posture requiring adequate fuel supplies, I wish to call to the attention of the committee the great importance of oil and gas development, production and refining to the economy of Louisiana, and the great contributions made to the operation of our state government by the revenues from oil and gas severance taxes as well as lease payments and royalties on state-owned lands.

The following table illustrates the importance of these revenues to our state:

LOUISIANA STATE INCOME FROM OIL AND GAS PRODUCTION

Fiscal year ending June 30	Oil and gas severance taxes	Royalties	Bonuses	Total
1962	$146,200,000	$63,044,751	$11,487,274	$220,732,025
1963	159,486,000	72,442,329	32,472,546	264,400,875
1964	168,630,000	75,592,223	27,024,352	271,246,575
1965	174,524,000	79,593,199	30,461,309	284,578,508
1966	200,261,000	92,627,077	35,270,967	328,159,044
1967	225,000,000	107,303,648	11,908,138	344,211,786

These figures do not include property taxes, income taxes, sales taxes, and many other taxes generated by the petroleum industry. They do not include taxes on motor vehicle fuels in Louisiana which last year resulted in revenues of $82,410,000. When these taxes on motor fuels are added to the total state income from severance taxes, royalties and lease bonuses, the 1967 petroleum industry revenues to the state totaled $426,622,000 from these sources alone. This was well over 60 percent of all revenues from all sources collected by the State of Louisiana in the year 1967.

It is apparent that the industry's contributions to our government services, including roads, highways, public education, and other vital functions are of such magnitude that these funds—if substantially reduced or cut off—would be virtually irreplaceable without a massive infusion of federal monies. I call attention to these facts only to show that, to the extent that the domestic petroleum industry is further displaced by foreign oil, Louisiana and her sister oil- and gas-producing states would be denied revenues which are vital to the operation of our state government.

Beyond the contributions to our state government, industry operations in Louisiana are a prime stimulus to our entire state economy. In 1967, almost 50,000 Louisianians were employed in oil- and gas-producing activities, and some 9,800 in our petroleum refineries. Additional thousands were employed in service, supply and equipment firms serving the industry—and in other activities dependent upon oil and gas industry activities.

I bring these facts to the attention of the Committee only to illustrate that there are substantial reasons, in addition to our overriding security requirements for dependable oil supplies, for limiting oil imports to reasonable but firm levels for the long-range. A breakdown in existing import standards, such as the proposal to permit up to 300,000 barrels daily of unneeded foreign oil over and above the 12.2 import ratio as a "bonus" to companies complying with local air pollution standards, would result in fewer jobs, less income, and lower revenues in all our oil-producing states.

I urge that the committee, in considering this issue, take these factors into account. But while they are of extreme importance to Louisiana, to Texas, to Oklahoma, to California, and to our other oil-producing states, they are secondary to the most important consideration: The need to restore new vigor to the search for and development of domestic petroleum supplies required to meet our rapidly expanding demands for these energy forms. In my judgment, the hope of meeting our future energy needs requires a firm—rather than a constantly eroding—program to limit petroleum imports.

The CHAIRMAN. Are there any questions? If not, then, thank you again, Mr. Willis.

The Honorable Garner E. Shriver, of Kansas, is our next witness. Welcome, Mr. Shriver; proceed as you see fit, sir.

STATEMENT OF HON. GARNER E. SHRIVER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. SHRIVER. Mr. Chairman and members of the committee, I am sure I need not remind this committee that there is no commodity more important to the national security than petroleum. On many occasions, over the past decade, experience has shown, time and time again, that the United States is the only completely reliable and adequate source of petroleum for this Nation's needs in time of crisis and conflict. Last year the Middle East crisis once again demonstrated the importance of having a readily available supply of oil in this country to meet the needs of this Nation and also to help supply the oil requirements of other friendly nations.

Last week I appeared with other witnesses from Kansas who furnished your committee with adequate facts and statistics which revealed that during the past decade this Nation's petroleum-producing industry has been going downhill. Mr. Clinton Engstrand, vice president and director of the Kansas Independent Oil & Gas Association, in his statement before the committee, declared:

> Within the past decade the producing industry in Kansas has been devastated by powerful economic forces and government action. Its numbers have been drastically reduced, its productive capacity has dwindled, the search for vital energy reserves has declined alarmingly and daily production has diminished.

In the State of Kansas the oil-producing industry is largely made up of the smaller elements in the oil industry. Due to this the declines that have taken place in the oil-producing industry during the past decade have been particularly hard on Kansas independent oil and gas producers. As a result, a large percentage of them have had to give up and quit the business. This has hurt the overall economy of Kansas, as well as the harm that has been done to our Nation's security.

The serious conditions existing in the domestic petroleum-producing industry are well known to this committee and likewise to the executive branch of our Government. The Department of the Interior, which is the department closest to the overall situation with respect to petroleum, stated in its in-depth study of the petroleum-producing industry, published in January 1965, "* * * what has been done since 1956 to find new supplies of oil, whether through new discoveries or through increasing recovery rates of old deposits, has not been enough to provide a sound basis for future growth."

We are all well acquainted with the mandatory oil import program. I am concerned by the failure of this program to achieve its stated purpose that is mainly to assure a vigorous domestic petroleum industry for national security reasons. In fact, recent actions of the Department could lead to a complete dismantling of the program and further aggravate the already serious conditions existing in the domestic petroleum producing industry.

Even with the mandatory oil import program, the following adverse developments have taken place in my State of Kansas:

1. The number of rotary rigs operating in Kansas is down from 155 in 1957 to an estimated 32 in 1968.
2. Proved crude oil reserves in Kansas as of December 31, 1956, amounted to 992,211,000. In 1967 such reserves had been reduced to approximately 700 million barrels.

3. The selling price of crude oil per barrel in Kansas is approximately the same today as it was 11 years ago. However, the cost of finding oil has increased substantially.

4. The total number of employees in oil and gas production has changed from 15,825 in 1956 to 11,100 in 1966.

This is a serious situation and I believe that it is the responsibility of Congress to take the necessary action to reverse these adverse trends which, as I have mentioned, are taking place not only in Kansas, but in all of the more than 30 oil producing States. This Nation can ill afford to have this basic national security industry go down the drain.

Therefore, I wish to commend the Committee on Ways and Means for holding these hearings so that the true facts can be laid on the record. The time has come for Congress to write into statutory law the powers of the administration and the Department of Interior as intended originally by the mandatory oil import program. S. 2332 would accomplish this objective and I have joined with 46 members of the House in introducing similar bills in order to strengthen the present oil import program.

If we allow this program to be used as a palliative for all of alleged ills that come along, such as the air pollution problem, the economic problems in Puerto Rico, the economic development of the Virgin Islands, the balance-of-payments problem, etc., we will soon eliminate the basic reason for the program—our Nation's security.

Accordingly, I earnestly recommend that your committee give consideration to legislation now pending, such as S. 2332. It would aid materially in the maintenance of a strong domestic petroleum producing industry, so necessary to the welfare of all of our citizens.

Thank you.

The CHAIRMAN. Thank you, Mr. Shriver. Are there any questions?

The next witness is our colleague from Texas, Mr. White.

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

Mr. WHITE. Mr. Chairman, as representative of the 16th District of Texas, I represent a portion of the area known as the Permian Basin, comprising 57 counties in west Texas and four in New Mexico. This is America's largest single oil-producing area. I will not say it is the "richest" oil-producing area, because that word does not convey a true picture of the oil industry in my area.

The giant corporations of the oil industry are certainly rich, but the essential work of the industry, the discovering of new sources of petroleum products, is largely the work of the relatively small independent operator. The latest available figures show he is responsible for finding 74 percent of our domestic production. His numbers are becoming fewer because the incentives to discovering new oil resources are becoming less and less attractive.

The mandatory oil imports program was set up for the purpose of insuring that this Nation's oil reserves will not be wantonly exhausted, but, equally important, it was set up for the purpose of keeping our oil industry strong. It does little good to have oil in the ground, if there is no strong domestic industry, with its highly trained executives, technicians, and workers to produce it at the time when it is needed most.

One year ago, we were given a dramatic demonstration of how quickly we might have to become dependent upon our own oil resources. Surely no thoughtful American can say that this could not happen again. Our preparation for another such emergency should not consist of developing new foreign sources of oil, or encouraging higher imports, but in strengthening our domestic industry. It met the challenge a year ago, but in many areas its resources were greatly strained.

Representatives of the oil industry in my district have presented to this committee information backed by reliable statistics to demonstrate the industry's needs under a sound oil imports program. To keep that industry ready to meet the next challenge, it asks a one cent per gallon crude oil price increase; a chance to sell, as well as to buy, at today's market prices; and a full investigation of the administrative process concerning oil imports, to the end that the import program will achieve the purpose for which it was intended: to keep our domestic oil industry strong enough to meet the urgent needs of national security for our highly industrialized Nation.

The CHAIRMAN. We appreciate your sharing your views with us, Mr. White. Are there any questions?

Mr. WHITE. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Matsunaga? Mr. McClure?

Mr. McClure, we appreciate having you and those with you at the hearing this morning and if you will identify yourself we will be glad to recognize you, sir.

STATEMENT OF HAROLD M. McCLURE, JR., PRESIDENT, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA; COORDINATING WITH DON WATSON, PRESIDENT, PANHANDLE PRODUCERS & ROYALTY OWNERS ASSOCIATION; J. PAUL JONES, PENNSYLVANIA GRADE CRUDE OIL ASSOCIATION, BRADFORD DISTRICT, PENNSYLVANIA OIL PRODUCERS ASSOCIATION, AND NEW YORK STATE OIL PRODUCERS ASSOCIATION; NETUM A. STEED, PRESIDENT, TEXAS INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION; STARK FOX, EXECUTIVE VICE PRESIDENT, INDEPENDENT OIL & GAS PRODUCERS OF CALIFORNIA; JOSEPH C. SHELL, EXECUTIVE DIRECTOR, CALIFORNIA INDEPENDENT PRODUCERS & ROYALTY OWNERS ASSOCIATION; AND CLINTON ENGSTRAND, VICE CHAIRMAN, LIAISON COMMITTEE OF COOPERATING OIL & GAS ASSOCIATION AND PRESIDENT AND CHAIRMAN, KANSAS INDEPENDENT OIL & GAS ASSOCIATION

Mr. McCLURE. Thank you very much, Mr. Chairman and members of the committee.

My name is Harold M. McClure, Jr. I am president of the McClure Oil Co., Alma, Mich. I appear today as president of the Independent Petroleum Association of America, a national trade association with a membership of approximately 5,000 oil and gas producers, including land and royalty owners located in producing areas throughout the United States. In addition, I have been asked by the Michigan Oil and Gas Association, Lansing, Mich.; the Ohio Oil and Gas Association, Newark, Ohio; the Kentucky Oil and Gas Association, Owensboro, Ky.; and the North Texas Oil and Gas Association, Wichita Falls, Tex., to request that the record show that they endorse our testimony and position.

SUMMARY

The purpose of my testimony is to show cause and demonstrate the immediate need, in our judgment, for the Congress to amend H.R. 17551 so as to establish legislative guidelines that will restore the integrity and effectiveness of the mandatory oil import program.

The CHAIRMAN. Mr. McClure, would you identify the people at the table connected with your statement.

Mr. McCLURE. I would indeed. Gentlemen, this is Netum A. Steed, president of the Texas Independent Producers & Royalty Owners Association, from Wichita Falls, Tex.; Clinton Engstrand, who is from Wichita, Kans., representing the Liaison Committee and the Kansas Independent Oil & Gas Associations; J. Paul Jones, the president of the Pennsylvania Grade Crude Oil Association from Bradford, Pa.; Stark Fox, representing the Independent Oil and Gas Producers of California; Don Watson, who is representing the Panhandle Producers & Royalty Owners Association; and Joseph C. Shell, representing the California Independent Producers & Royalty Owners Association.

The CHAIRMAN. We appreciate having all of you gentlemen with us this morning.

Mr. McCLURE. Thank you. We have attempted to, in the interest of time, coordinate the presentation by the producer groups.

The CHAIRMAN. We appreciate your doing that.

Mr. McCLURE. As I have before mentioned, amendment to H.R. 17551, Mr. Chairman, would thereby establish the necessary legislative guidelines designed to restore the integrity and effectiveness of the mandatory oil import program. Such guidelines are incorporated in Senate 2332 which is similar in most respects to the 46 House bills now before your committee.

Mr. Chairman, as you and the committee know, the national defense section of the Trade Act is the legislative authority for the policy of the Federal Government of limiting the importation of oil into the United States. For more than a decade, this policy has been implemented through the mandatory oil import program, administered by the Department of the Interior.

The sole purpose of the mandatory oil import program is to maintain a healthy and vigorous domestic petroleum industry in the interest of national security.

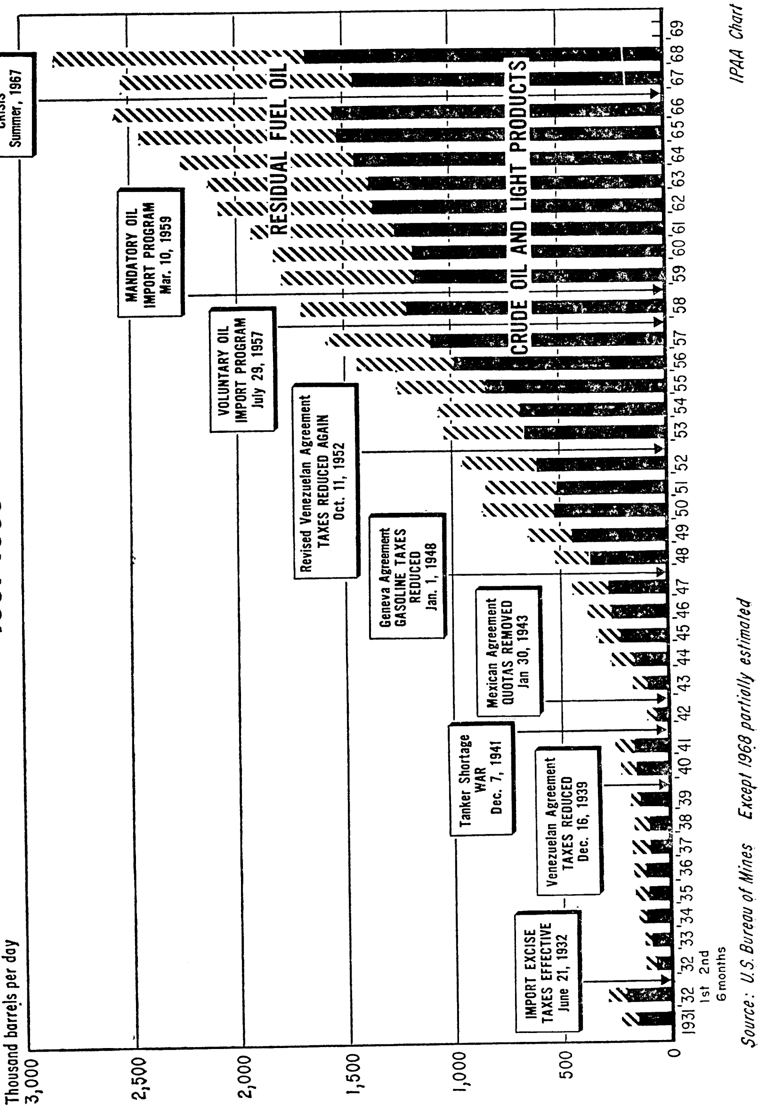
Therefore, the overriding question confronting us—is the policy of limiting oil imports, as presently being administered, attaining its stated purpose? We think not. In fact we believe not.

In our view, the Nation's security as related to petroleum is in grave danger.

This danger is indicated by (1) the threats to national security inherent in the progressive deterioration of the domestic oil producing industry during the past decade, and (2) a breakdown in the mandatory oil import program resulting from administrative actions taken for purposes unrelated to the national security objectives of the program.

Definitive congressional action seems imperative.

U.S. PETROLEUM IMPORTS 1931-1968



It should be pointed out that enactment of legislative guidelines for oil imports would not impose any new restraints on foreign trade. This legislation would do no more than reaffirm and reenforce the national security policy established in 1959 by the mandatory oil import program.

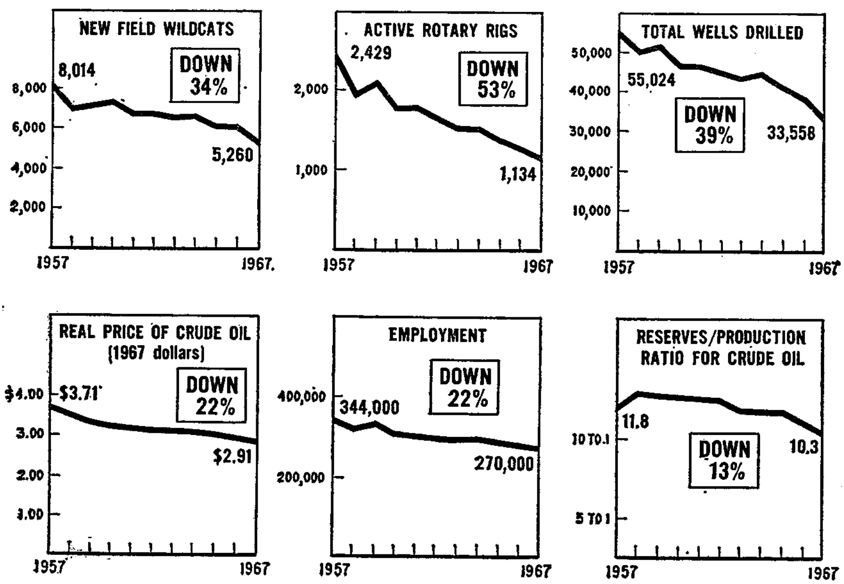
THREATS TO NATIONAL SECURITY

I would like to review very briefly certain trends in oil imports as well as trends in the domestic producing industry. You will observe by the chart which has been placed before you, the chart "U.S. Petroleum Imports" pictures import trends in relation to various events and governmental actions. Since World War II, total imports have increased from less than 400,000 barrels daily in 1946 to almost 3 million barrels daily in 1968; this despite the limitations imposed by a voluntary oil import program in 1957, and then followed by the mandatory oil import program in 1959.

This large growth in imports has adversely affected our national security as to domestic oil supplies. In addition, our oil trade deficit has been running in excess of $1.5 billion yearly, thus aggravating our international balance-of-payments problem.

In contrast to increasing imports, there have been declining trends in key indicators of the health and vigor of the domestic industry, as shown in the chart "Ten Year Trends in U.S. Oil Producing Industry."

TEN YEAR TRENDS IN U.S. OIL PRODUCING INDUSTRY



IPAA Chart

There is great significance in the 34 percent drop in the drilling of new field wildcats. These are the exploratory wells drilled in search of the new reserves necessary to sustain future production.

The oil business is much like a pro football team. If you stop recruiting you soon won't have a competitive team. Declining discoveries lead to curtailment of other industry activities essential to the maintenance of adequate oil supplies. In this connection, you will note that the number of active rotary drilling rigs is down 53 percent, with a decline of 39 percent in total wells drilled.

A prime incentive to these activities—the price of crude oil—has fallen by 80 cents per barrel, or 22 percent, when measured in real terms expressed in constant 1967 dollars. The oil producing industry has been a victim of —rather than a contributor to—inflation. If the industry is to fulfill its responsibilities in supplying fuel to the Nation, prices must move within the mainstream of the economy.

Reflecting the decreases in activity and the depressed economic conditions, employment in the exploration and producing branch of the industry has been reduced by 70,000 employees, or 22 percent.

The result of these depressed conditions has been a decline in proved reserves in relation to crude oil production. Our margin of safety in oil supplies is unnecessarily and artificially dwindling, and our security is thereby threatened.

A substantial increase in exploratory and drilling activity is urgently needed to reverse these trends.

Now, another pertinent question might be asked: Does the domestic industry have the capability to reverse these adverse trends?

In my opinion, Mr. Chairman, the answer is unequivocably, "Yes".

Great areas of potential oil resources are yet to be explored in the United States. Reversal in the downward trend of exploration and wildcat drilling will open up the necessary new reserves. Improving technology will continue to add to our present and future supplies. Recent large discoveries in Montana and Wyoming, including the Bell Creek field, illustrate the potentialities in inland areas. In addition, the Continental Shelf under the oceans as well as the lands of our new State, Alaska, represent two relatively new and large undrilled provinces.

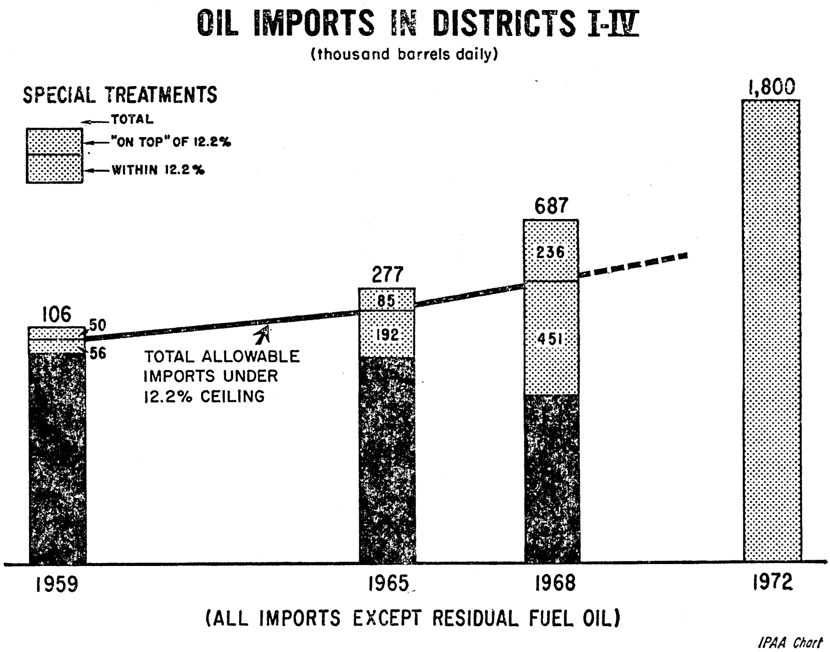
NEED FOR AN EFFECTIVE IMPORT PROGRAM

Under sound national policies and healthy economic conditions, the domestic industry can and will provide adequate supplies at reasonable prices. We must, therefore, regain the integrity of the oil import program. This is an essential element of sound national policy, an effective and stable oil import program.

The mandatory oil import program was soundly conceived. But, unfortunately, as it is now being administered, it is not adequately serving its security objectives.

What has happened to the program? Where does it stand? And, where is it headed?

Answers to these questions can be found on the chart entitled "Oil Imports in Districts I–IV" which you see on my left. In that area east of the Rockies, the most important security standard of the import program is the limitation of imports to 12.2 percent of production.



This standard is being dismantled by a substantial increase in "special treatments" that give a favored and perferential position to various categories of imports, as well as classes of importers, types of products, and individual companies.

In 1959 these special treatments were relatively limited; totaling about 100,000 barrels daily, equivalent to only one-tenth of the total allowable imports. By 1965, 6 years later, the volume of imports given special treatment had increased to 277,000 barrels daily.

In the next 3 years, since 1965, however, this volume has skyrocketed to almost 700,000 barrels daily, equivalent to almost two-thirds of the total allowable imports under the 12.2 percent ceiling. The result was predictable: It became impractical to find "room" within the 12.2 percent ceiling to accommodate all of the large increase in special treatment imports. As a result, a total of close to 250,000 barrels daily are now being imported over and above the ceiling.

All of this overage is imported at the expense of domestic production and in violation of the policy of maintaining a stable relationship between imports and production.

OIL IMPORTS IN DISTRICTS I–IV (EXCLUDING RESIDUAL FUEL OIL)

[Thousands of barrels daily]

	1959	1965	1968	1972 estimate
SPECIAL TREATMENTS				
Special treatments outside 12.2 percent:				
Overage from Canada		12	60	([1])
Bonded jet fuel and distillate fuel	15	38	80	([1])
From Puerto Rico	35	35	35	([1])
No. 4 fuel oil			25	([1])
Carryover of 1967 quotas			36	([1])
Total	50	85	236	([1])
Special treatments within 12.2 percent:				
Overland from Canada and Mexico	56	192	310	([1])
From Puerto Rico and Virgin Islands			46	([1])
Carryover of 1967 quotas			36	([1])
Petrochemical quotas			52	([1])
No. 2 fuel oil			7	([1])
Total	56	192	451	([1])
Total special treatments:				
Overland from Canada and Mexico	56	204	370	[2] 600
Bonded jet fuel and distillate fuel	15	38	80	[2] 150
From Puerto Rico and Virgin Islands	35	35	81	[3] 150
No. 4 fuel oil			25	[3] 50
Carryover of 1967 quotas			72	
Petrochemical quotas			52	[4] 300
No. 2 fuel oil			7	[3] 50
For low-sulfur fuel				[5] 300
For asphalt				[6] 100
Bonus imports for exports				[7] 100
Grand total	106	277	687	1,800
SUMMARY				
Imports outside 12.2 percent: Special treatments	50	85	236	(?)
Allowable imports within 12.2 percent:				
Special treatments	56	192	451	(?)
Regular allocations	817	793	650	(?)
Total allowable imports per 12.2 percent	873	985	1,101	1,250
Total special treatment imports	106	277	687	1,800
Percent of total allowable imports	12.1	28.1	62.4	144

Sources for 1972 estimates:

[1] See totals below.
[2] Continuation of existing policies and trends.
[3] Application of precedents, already set, to pending and future applications.
[4] Increase in present allocations, per program of chemical companies.
[5] Per May 24, 1968, proposal of Interior Department.
[6] Displacement of east coast domestic asphalt, per authority already granted to Interior Department.
[7] Bonus for present exports of petrochemicals and oil lubricants, per Dec. 24, 1967, joint announcement by Secretaries of Commerce and Interior.

Because of these special treatments, it is clear that the import program has now reached, in fact has passed, the "breaking point." Preferential and special treatments inevitably breed both the seeking and granting of more and more such treatments; breaching, to an increasing extent, the 12.2-percent ceiling.

Let's look ahead if the present administrative practices are continued, the chart shows "special treatment" imports increasing to an estimated 1,800,000 barrels daily by 1972. This would exceed total allowable imports by almost 50 percent, before even giving any consideration to regular allocations not subject to special treatment. Obviously, Mr. Chairman, the Mandatory oil import program would be in shambles, with huge excesses necessarily being permitted over the 12.2-percent ceiling.

I would like to emphasize that the projections for 1972 include only the known cases of "special treatments," already granted or under consideration by the Interior Department. The projected increases, therefore, could well prove to be much lower than they would normally be.

CONCLUSION

The United States petroleum industry has the capability of providing the Nation with petroleum supplies adequate to meet national security needs.

Under the present administration of the oil import program, it is our opinion that the domestic oil industry will continue to deteriorate and our Nation will unnecessarily and artificially become dependent upon unreliable foreign oil sources.

The industry needs, therefore, a clear policy mandate from the Congress that the domestic industry is preferential to a dependency on foreign source oil and that oil imports will be limited so as to encourage the domestic industry to remain capable of supplying our oil requirements at all times, both during peace time and during emergency. We have documented this presentation with evidence set forth in Appendixes A, B, C, D, and E, which Mr. Chairman, in the interest of time I would like to request that they be incorporated in the record as part of my statement. I certainly want to thank you for the privilege of testifying before your committee. We will proceed with the testimony of the other producer groups and then respond to any questions you might like to ask or have questions now, sir.

The CHAIRMAN. All right. You proceed and give us your entire testimony and then we will ask questions.

Mr. McCLURE. Very good.

The CHAIRMAN. Without objection the material you referred to will be included at this point in the record.

(The appendixes referred to follow:)

APPENDIX A.—THE ORIGIN AND PURPOSE OF THE MANDATORY OIL IMPORT PROGRAM

Few major national policies have received more study and consideration over the past two decades than has the matter of excessive petroleum imports and their impact on the domestic petroleum producing industry and national security.

During this period there emerged, as a direct result of the thorough and exhaustive consideration by the Legislative and Executive branches of the Federal Government, a firm national policy on petroleum imports. In the interest of national security this policy calls for the maintenance of a proper balance between petroleum imports and domestic petroleum production in order to insure a dynamic and vigorous domestic petroleum producing industry—an industry which at all times would be capable of producing the petroleum needed to supply at reasonable prices the petroleum products so necessary for an ever-expanding national economy and to furnish the vital supplies so necessary to successfully prosecute wars, stave off and deter war threats and help other friendly nations with their petroleum needs in times of crises.

The basic national policy on petroleum imports did not just happen.

As far back as January 13, 1949, the National Petroleum Council, established under the auspices of the Federal Government as the official oil industry advisory body to the Federal Government, outlined a set of fundamental principles as essential to a national oil policy. These principles, which were formulated by the Council at the request of the Secretary of the Interior, were adopted unanimously by the Council.

The very first of these fundamental principles was as follows:

". . . The national security and welfare require a healthy domestic oil industry.

"Continuing supply to meet our national oil needs depends primarily on availability from domestic sources. Due consideration should be given to the development of foreign oil resources, but the paramount objective should be to maintain conditions best suited to a healthy domestic industry which is essential to national security and welfare."

Earlier, during World War II, the Petroleum Industry War Council had recommended to the government certain policies which were reflective of the oil industry's peacetime and wartime experience with oil imports. This oil industry council was created under the Petroleum Administration for War, to act as an advisory body to the government on problems affecting the oil industry.

This industry Council was requested to submit to the Petroleum Administrator, for the use of the government, a statement to suggested policies for the Federal Government and the industry.

At the conclusion of the war, and at the last session of this agency, on October 24, 1945, the following resolution was adopted by that Council.

"Whereas, during the emergency just ended, in order to meet accelerated war requirements, this nation found it necessary to import abnormal quanities of crude oil and refined products from foreign sources; and

"Whereas, the future of the domestic petroleum industry in this country depends on the maintenance of sufficient reserves and the productivity of its many fields, thereby enabling the industry to meet all the requirements incident to an expanding domestic economy; and

"Whereas, the continued importation of large quantities of crude oil and products at prices below the cost of production in this country would have a depressing effect on exploration, development and production in the domestic industry: Now, therefore be it

"*Resolved*, by the Petroleum Industry War Council, assembled on this the 24th day of October, 1945, in Washington, D.C., that it does declare that in the public interest and that in the interest of maintaining national security it should be the policy of this nation to so restrict amounts of imported oil so that such quantities will not disturb or depress the producing end of the domestic petroleum industry, and only such amounts of oil should be imported into this country as is absolutely necessary to augment our domestic production when it is produced under conditions consonant with good conservation practices."

Thus it can be seen that at the end of World War II this national advisory group concluded that petroleum imports should not be permitted to weaken the domestic petroleum producing industry and thus threaten our nation's security and economic welfare.

Soon after World War II Congress began to investigate and give extensive consideration to the status of the domestic petroleum industry and how imported foreign oil affected this industry.

On January 31, 1947, The Special Committee Investigating Petroleum Resources, set up by the Senate, in Senate Report No. 9, 79th Congress, concluded as follows:

"In the final analysis, the reserves within our own borders are more likely than not to constitute the citadel of our defense.

"It follows that nothing should be done to weaken the productive capacity of domestic reserves, and that every possible step should be taken both to increase these reserves and continuously to develop them to such a degree as would occasion no regret in the event of war."

* * * * * * *

"This nation now faces two alternatives:

"Either—

"1. To await with hope the discovery of sufficient petroleum within our boundaries that the military requirements of the future will occasion no concern, and in the meantime to depend upon foreign oil and trust that war will not cut off our imports;

"Or—

"2. To take steps to guarantee a domestic petroleum supply adequate for all eventualities by means of:

"(a) Incentives to promote the search for new deposits of petroleum within the boundaries of the United States and in the continental shelf; and

"(b) The continuation of the present program looking to the manufacture of synthetic liquid fuels to supplement our domestic crude supply.

"All the facts before us impel the choice of the second alternative."

The foregoing dealt with a study and the conclusions by a special Committee of Congress during the late 1940's.

In the 1950's Congress continued to concern itself with the domestic petroleum industry and the matter of imports of foreign oil.

In developing a national petroleum imports policy, Congress had the benefit of studies and conclusions of the Executive branch, such as:

The conclusions of the Defense Production Administration, established as a result of the Korean conflict, in January, 1953, which contained the results of its studies regarding defense matters in a report entitled "Background for Defense, Expanding our Industrial Might." as follows:

"The machines of peace and war run on petroleum. A program to expand American industry substantially and keep it operating at top capacity requires constantly increasing quantities for fuel, for lubricants, and for many chemicals made from petroleum—everything from toluene for TNT to wax for packagings. Greater industrial activity and peak levels of employment demand more and more gasoline for airplanes, automobiles, trucks, tractors, and buses, and more diesel fuel for locomotives.

"The defense program will by 1953 boost our petroleum needs to some 8,200,000 barrels a day as contrasted with 6,800,000 barrels a day used in 1950—a better than 20 percent increase.

"If we are to meet the needs, we shall have to drill more wells each year than ever before in our history. We shall have to expand the refineries where crude oil is made into gasoline and fuel oil and the other finished petroleum products. We shall have to enlarge our transportation facilities to move the crude petroleum to the refineries and the finished products to consumers."

In May of 1953, Secretary of the Interior McKay, in appearing before the House Ways and Means Committee, stated as follows:

"I recognize the importance of domestic petroleum production to national defense and the contribution it makes to the National economy and that of the oil-producing states. I also realize that the petroleum industry is unique in that discovery and development of new reserves constitute a major and vital activity of the industry. Oil and gas produced must be replaced by a vigorous and progressive search for new reserves or the Nation's ability to produce petroleum would rapidly deteriorate.

"I recognize how important it is that the strength of the domestic industry be maintained. To maintain this strength requires an economic climate that promotes the competition, progress, and technological development that has brought the industry to its present high degree of capability. The domestic industry today is undergoing a period of readjustment. The rate of growth in demand has leveled off after the rapid gains which followed the Korean outbreak. At the same time the expansion of supply has brought about a more normal reserve capacity. Demand is now dropping seasonally at the close of a warm winter. Domestic production has been reduced in recent months, and *there should be a corresponding cut in imports*. There is evidence that already the industry is effecting such adjustments." (Italics supplied.)

As the flood of foreign oil increased, the President and Congress became concerned and took action.

Recognizing the threat of increasing imports on our nation's security a first step was taken. Congress inserted a provision in the 1954 Extension of the Trade Agreements Act which declared:

"No action shall be taken pursuant to Section 350 to decrease the duty on any article if the President finds that such reduction would threaten domestic production needed for projected national defense requirements."

Then on July 30, 1954, the President established an Advisory Committee on Energy Supplies and Resources Policy. The Director of the Office of Defense Mobilization was designated as chairman and the head of the following agencies served as members: Department of State, Treasury, Defense, Justice, the Interior, Commerce and Labor.

The White House directive respecting the Committee's assignment included the following specific statements:

"At the direction of the President the committee will undertake a study to evaluate all factors pertaining to the continued development of energy supplies and resources fuels in the United States, with the aim of strengthening the national defense, providing orderly industrial growth, and assuring supplies for our expanding economy and for any future emergency.

"The committee will review factors affecting the requirements and supplies of the major sources of energy including: coal (anthracite, bituminous and lignite, as well as coke, coke tars, and synthetic liquid fuels); petroleum and natural gas."

Upon conclusion of its work the Committee recommended:

CRUDE OIL IMPORTS AND RESIDUAL FUEL OIL IMPORTS

"An expanding domestic oil industry, plus a healthy oil industry in friendly countries which help to supply the United States market, constitute basically important elements in the kind of industrial strength which contributes most to a strong national defense. Other energy industries, especially coal, must also maintain a level of operation which will make possible rapid expansion in output should that become necessary. In this complex picture both domestic production and imports have important parts to play; neither should be sacrificed to the other.

"Since World War II importation of crude oil and residual fuel oil into the United States has increased substantially, with the result that today these oils supply a significant part of the U.S. market for fuels.

"The committee believes that if the imports of crude and residual oils should exceed significantly the respective proportions that these imports of oils bore to the production of domestic crude oil in 1954, the domestic fuels situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense. There would be an inadequate incentive for exploration and the discovery of new sources of supply.

"In view of the foregoing, the committee concludes that in the interest of national defense imports should be kept in the balance recommended above. It is highly desirable that this be done by voluntary, individual action of those who are importing or those who become importers of crude or residual oil. The committee believes that every effort should be made and will be made to avoid the necessity of governmental intervention.

"The committee recommends, however, that if in the future the imports of crude oil and residual fuel oils exceed significantly the respective proportions that such imported oils bore to domestic production of crude oil in 1954, appropriate action should be taken.

"The committee recommends further that the desirable proportionate relationships between imports and domestic production be reviewed from time to time in the light of industrial expansion and changing economic and national defense requirements."

This report was released on February 26, 1955. As a result of this study the oil importing companies were requested by our Government to voluntarily restrict imports of petroleum into the United States on an individual basis in conformity with this Committee's report.

Meanwhile this whole matter of petroleum imports was being considered in Congress. As a result, Congress wrote Section 7 into the Trade Agreements Extension Act of 1955, known as the "National Security Amendment," as follows:

"In order to further the policy and purpose of this section, whenever the Director of the Office of Defense Mobilization has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security, he shall so advise the President, and if the President agrees that there is reason for such belief, the President shall cause an immediate investigation to be made to determine the facts. If, on the basis of such investigation, and the report to him of the findings and recommendations made in connection therewith, the President finds that the article is being imported into the United States in such quantities as to threaten to impair the national security, he shall take such action as he deems necessary to adjust the imports of such article to a level that will not threaten to impair the national security."

In adopting the National Defense Amendment, the Senate Finance Committee (Rept. 232, 84th Cong., 1st sess.) stated:

"(9) The Committee had before it several proposals dealing with specific commodities, namely petroleum fluorspar, lead, and zinc. In lieu of specific action on each of these the committee adopted an amendment which specifies that the Director of the Office of Defense Mobilization shall report to the President when he has reason to believe that imports of a commodity are entering the United