compared with its foreign competition, since feedstocks abroad are only two-thirds as expensive as those in the U.S.

This difference in domestic and foreign feedstock costs can be directly traced to an oil import quota system introduced in 1959 to protect U.S. oil production for reasons of national security. Under this system, only about 15 per cent of the U.S. demand for petroleum products may be supplied by foreign sources. The balance must come from domestic oil wells. While this import restriction does protect the U.S. oil production industry and encourage it to stay active, a key result is that domestic crude oil and derivatives are made substantially more expensive. Presently, and for some years now, this cost difference has been about $1.25 per barrel, or 3¢ per gallon. With such a burden, there can be but one result. The domestic petrochemical manufacturer must lose out to foreign-based competitors, first in established world industrial centers, next in the vast developing areas and ultimately in the United States.

The forced usage of domestic oils does not work a particular hardship in U.S. energy markets. Energy products such as gasolines and heating oils, while more costly due to the use of domestic crude, are sold only in U.S. markets protected by this same quota system. Monsanto supports the use of import quotas for energy products, believing it to be in the interest of national security, but Monsanto maintains that there exists an adverse effect on the domestic petrochemical industry from the continued application of this quota system to the petrochemical feedstock area.

Returning to the earlier example of a 3¢ petrochemical made with 2¢ of raw material of domestic origin, the 2¢ raw material cost would be reduced to just 1.3¢. if feedstocks were obtainable at costs prevailing in the EEC or EFTA areas. This is a difference of 0.7¢ per pound for a 3¢ material. It is a difference which cannot be tolerated in the freely competitive world toward which we are moving under the Kennedy Round agreements. Instead, only those manufacturing locations which make these primary petrochemicals at the lowest prices will be able to grow and prosper—those unable to achieve the 0.7¢ per pound savings will wither and die. We do not have a choice of whether these primary petrochemicals will be made with the cheaper, world-priced feedstocks—it is a certainty that they will. The only choices are whether this manufacture is to be in the United States, or abroad; whether with U.S. labor, or foreign labor; whether petrochemicals will provide a surplus or a deficit to the U.S. trade balance.

The Ways and Means Committee is strongly urged to consider the need of domestic petrochemical companies for feedstocks at prices competitive to the prices paid by their foreign counterparts for such material. The domestic petrochemical industry must achieve this parity to survive. This can be accomplished only through revision of the present mandatory oil import program to provide access to world-priced feedstocks for chemical manufacture. This has already been done in special actions enabling construction of a world-competitive petrochemical industry in Puerto Rico.

There is no inconsistency in Monsanto's position in favoring U.S. import limitations on textiles and opposing limits on petroleum feedstocks.

In petrochemical manufacturing, raw materials as already noted are the dominant cost factors—about 67% of total costs. Thus, while the cheap labor rates of foreign competition are not a factor in primary petrochemical production, Monsanto cannot compete with these same manufacturers without competitively priced feedstocks.

In contrast, raw materials are a minor factor in the cost of manufacturing fabrics—totaling only 5 to 10%. Labor costs are the dominant element, frequently comprising 40% or more of costs. Import quotas on textile products, therefore, are needed to preserve high wages and employment in the U.S. economy. These labor rates can no longer be offset by other factors.

The philosophy of making basic raw materials freely available for the manufacture of low-labor cost materials, such as petrochemicals, while protecting high-labor content products such as textiles and benzenoid chemicals is well recognized by economists. It is most useful to nations with balance of payments problems. And it will preserve healthy and vigorous chemical and textile industries in the United States.

To summarize, Monsanto recommends the retention of American Selling Price by deleting Title IV of H.R. 17551, limitations of imports of man-made fibers and their products and access to world-priced feedstocks for petrochemical manufacture.