

reserved because they were import sensitive or were simply overlooked in the Kennedy Round.

Representatives of this industry appeared before the Tariff Commission and the Trade Information Committee in 1963-64 to admonish our negotiators against including chili pepper and paprika in any across-the-board negotiations. The reasons for reserving these articles then are more imperative today in this era of trading blocs, sophisticated non-tariff barriers, balance of payments deficits and devaluation of currencies.

Paprika has historically been imported from the low cost producing Mediterranean and Balkan countries. These countries either are communist (Czechoslovakia, Hungary, Rumania and Bulgaria) or are non-GATT members, (Morocco and Portugal) or in the case of Spain offered very few concessions. Any duty cut on paprika would add to the large price advantage enjoyed by the non-communist exporters receiving most favored nation treatment and would serve as an attraction to these countries to increase their production and exportation to the U.S.

Spain over the years has supplied 45-60% of imports of paprika (30-40% of U.S. consumption) and as such substantially influenced U.S. market prices. Following World War II and into the mid 1950's the Spanish Government set the price at which paprika could be exported to the U.S. As a result of this price control, the Spaniards were able to sell as much or as little in the U.S. as required by the size of their crop.

Subsequently, the Spaniards reestablished a free market and prices were allowed to fluctuate. However, the Spanish Government did not overlook this important market and source of dollar earnings and set up an export subsidy payment of 12% of the value of paprika exports. Thus, a Spanish producer, even if he sold at his cost, had a built-in profit of 12%.

Although this subsidy payment has provided the Spanish industry a devastating competitive weapon, the recent upheaval in international monetary exchanges may prove even more damaging.

On the 18th of November of 1967, the British devalued the pound from \$2.80 per pound to \$2.40, or 14.3%. Two days later, the Spanish Government devalued the peseta 14.4% from \$.0167 per peseta to \$.0143. The result of this was an immediate drop in the quotations of Spanish paprika for export to the United States, almost identical in amount to the devaluation. Several days later, the Spaniards had some second thoughts and added an export tax which would eliminate some of the effects which devaluation had on non-U.K. exports.

This export tax amounted to 3 pesetas per kilo, or the equivalent of about \$.0195 per pound, or about 6%. With the addition of this export tax, the quotations of Spanish paprika went back up a similar amount. The net effect since the devaluation was a reduction in the quotations of Spanish paprikas by 14%, and then an increase of approximately 6% back after the export tax. On approximately March 1, the Spanish Government rescinded the export tax, thus reinstating the full 14.4 decrease. The economic effect on the U.S. industry has been an intensification of the price-cost squeeze caused by increasing raw material and labor costs and the lowering of import prices.

Mexico, the only commercial import source of chili peppers, accounting for approximately 45% of the U.S. consumption, warrants careful consideration in any future trade policies. It does not belong to GATT, grants no concessions to the United States but readily accepts the benefits of all of the concessions granted by the U.S. and other GATT members. Imports from Mexico, though rapidly increasing at the existing rates of duty, were given a recent stimulus by the Mexican Government. In 1962 a Government program was established to support the production of and stabilization of the price of chili peppers in Mexico. This program resulted in the dumping of large quantities into the U.S. in 1963-64. Ground chili pepper exports, which product incidentally is not used by Mexicans, are climbing swiftly. This has not only provided a new avenue to dispose of surplus chili pepper production, but has increased the man hours worked in this Mexican industry—and at wage rates one-fifth those of the U.S.

Again, any concession on chili pepper either ground or unground would attract even larger imports of chili products and unilaterally benefit Mexican producers and exporters.

We see no merit to even considering legislation which will again expose this industry to the possibility of the lowering of an already low duty rate.

We have no export markets for our products and no foreseeable reciprocal duty reductions abroad can create a market. Import penetration is already at