THE FUTURE OF U.S. FOREIGN TRADE POLICY

WEDNESDAY, JULY 12, 1967

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room S-407 the Capitol, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Reuss, and Widnall.

Also present: John R. Stark, executive director; John B. Henderson, staff economist; and Donald A. Webster, minority staff economist.

Chairman BOGGS. The subcommittee will come to order.

I am informed that Assistant Secretary Solomon is, unfortunately, ill this morning.

We have his deputy, Mr. Joseph A. Greenwald, Deputy Assistant Secretary for International Trade Policy, with us.

Mr. Greenwald will incorporate the Secretary's statement into the record, and also make the statement that the Secretary would have made had he been here.

We are very happy also to have Assistant Secretary McQuade, with his deputy, Robert L. McNeill.

We will hear from all of these gentlemen this morning.

Thank you very much for coming. You may go right ahead.

STATEMENT OF HON. LAWRENCE C. McQUADE, ACTING ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS; ACCOMPANIED BY ROBERT L. McNEILL, DEPUTY ASSISTANT SECRETARY FOR TRADE POLICY

Mr. McQUADE. I am very pleased to be here today to take part in this evaluation of our foreign trade policy. I believe that hearings of this type are useful in defining problems and seeking to determine precisely what our national objectives should be.

Six years ago this committee held hearings on our foreign trade policies, and a great deal of credit belongs to this committee for the passage of the Trade Expansion Act, which laid the groundwork for the successful Kennedy Round negotiations just completed. The results of these negotiations have not been fully revealed but I can assure you that in a few days complete details on the concessions granted by other countries will be made public and those interested in this area can see the fruits of our work. I think, given the aggressive and imaginative character of U.S. businessmen, that it will open up great new opportunities for them in the international markets.

However, I do not plan to make any further remarks about the Kennedy Round other than to note at this time that there is still some unfinished business. The administration will be submitting to the Congress proposals for implementing the second part of the agreement on chemicals dealing with elimination of the American selling price system of valuation. The Department of Commerce supports elimination of the American selling price system of valuation. The Department of Commerce supports the chemical agreement and we will be testifying before the appropriate committees urging enactment of the implementing legislation. Action by the legislatures of other countries is required for fulfilling some of the obligations they have assumed. In brief, the Kennedy Round will be occupying part of our time for some months to come.

Other issues of trade policy which lie before us can be divided into two categories—those of immediate importance calling for action in the next few months and those of a longer term nature. I will discuss them in that order.

Perhaps the most immediate problem before us, other than the legislation dealing with chemicals, is additional tariff cutting authority for the President to replace that which expired on June 30. Basically our need is for a relatively small reduction authority which will provide us with tools for handling day-to-day housekeeping problems of compensating other countries for increases in U.S. tariff rates. Such increases, as you know, may be brought about by legislation enacted by the Congress, by escape clause actions which might be approved by the President increasing rates on items now subject to tariff concessions, and by decisions of customs courts. We might also need such authority to modify existing tariff concessions in order to take care of technical problems or close loopholes which may arise. We anticipate that proposals on this subject will be presented to the Congress in the near future.

Probably the second matter of immediate importance arises from the fact that the concessions granted by the United States will go into effect on the first of next year. This will necessitate, in our judgment, amendment of title III of the Trade Expansion Act to improve the provisions relating to applications for adjustment assistance. Failure of any firm or groups of workers to meet the act's tests for injury or the threat of injury from imports over the last 5 years indicates that the provisions may be too rigid. This matter is being discussed within the administration with a new view to submitting appropriate legislation to the Congress.

These are the problems in the immediate future which require action. Now I would like to concentrate on some of the longer range issues. While I cannot do so here today, I think it is proper to note that the problems have to be related to the economy of our country and to the impact on our balance-of-payments position when we try to define our national interest.

One of the problems which will be given considerable study is the effect of removing trade barriers on the flow of investment both into and out of the United States. While our knowledge in this area is limited it is clear that a relationship does exist, as almost one-quarter of our total exports is to overseas subsidiaries of U.S. firms. As you know, when U.S. firms seek to enter international markets they have a variety of ways they can go about it. One of these is by exporting, another is direct investment, and a third is licensing. And they seek to be effective in international markets by the appropriate mix of these three methods.

This is reflected in part in the extraordinary growth over the last decade of the international firm. We know these firms are making very considerable contributions to economic growth here as well as abroad. We also know that these firms have great flexibility in shifting sales and purchases among suppliers of various countries. We believe we should look further into this relatively new aspect of international business so that we can take into account more fully the effects of policy decisions on the operations of these firms.

Much has been said and written about nontariff barriers and in the Kennedy Round the first real progress was made in tackling these restrictions on a multilateral basis. Nontariff barriers are different things to different people. Some European countries, for example, consider that the U.S. tariff is itself a nontariff barrier because the United States has not adopted the Brussels tariff nomenclature system. We, of course, reject such contentions but the very argument illustrates the variety of things which someone may regard as a trade barrier. Dealing with these subjects is very difficult and requires a great deal of time and effort and understanding as well as constructive thinking on the part of all interested parties. The agreement on international rules for dumping emerged from the Kennedy Round because all countries agreed after long discussion that there was a common problem and that individual attention to it by each country only compounded the difficulties.

This area is very broad and we believe that we should pick up from where we stopped in the Kennedy Round and proceed to see what we can do. Some of the important nontariff barriers of particular concern are in the areas of national procurement, quotas, purchasing policies of State enterprises and monopolies, and safety and health regulations.

But let's not forget that, like negotiations on tariffs, negotiating removal of nontariff barriers to trade is also a two-way street. We have to be willing to put our own house in order when demanding that others do likewise. The handling of the ASP legislation will be a major test in this respect.

Many consider that the border taxes imposed by a great number of the developed countries constitute a nontariff barrier. We do not disagree, but there is a strong relationship with the general problem of tax policy. This issue is extremely difficult in that we are dealing with national tax structures and any solution will have to be approved by a host of national assemblies. Some theorists argue that border taxes have no trade effects. However, it is another thing to explain to a businessman that a border tax of 10, 15, or 20 percent on top of import duties does not have any effect on his exports, or that exemption from such taxes of exports to this country does not have an effect on the prices in the markeplace in the United States. We do not yet have satisfactory answers to the border tax question but we will be looking for some in the near future. Some think it would be best to seek amendment of the General Agreement on Tariffs and Trade to wipe out the distinction between direct and indirect taxes so that the United States, which largely relies on direct taxes, could legaly adopt the same arrangement now followed by most European countries. Perhaps some constructive suggestions for dealing with this problem will emerge from these hearings.

The problems of the developing countries will be covered rather fully by Mr. Greenwald, so I need not dwell a great deal on that subject at this time. The problem in its simplest terms is whether we can properly adopt trade policies which would help promote economic growth in those countries and assist them in earning sufficient foreign exchange so that they can join the developed countries in a trading world free of restrictive devices.

One current suggestion toward this end is a proposal by the developing countries that the industrial nations grant to less-developed country exports the tariff cuts of the Kennedy Round right away instead of staging them over 5 years. We need to examine the implications of such action in terms of its impact on our industries and the general problem of preferences for the exports of developing countries. We know, of course, that many of the products of the developing countries are not competitive with domestic production and that these will pose no problem whatever—some, of course, would pose a problem. We still want to give this matter further consideration, however, before making specific proposals.

Second, there are a number of materials needed by American industry and not available in the United States which are subject to import duties. Some of these could be made free of duty without any difficulty. The Congress seems to be in general sympathy with this idea, for it has approved a number of suspensions of duty in recent years to relieve industry of unnecessary costs. Congress has also given the executive branch authority to negotiate elimination of duties for a few such products, namely nickel and limestone for making cement. We would like to look further into this area and possibly make some recommendations for eliminating duties which would not only help reduce the costs of our domestic industry but would also benefit the developing countries.

Next is the issue of trading with the countries of Eastern Europe and the Soviet Union. This is a matter which is already being discussed within the Congress. We support the principle that the United States should improve its trade relations with these countries. In fact, we believe it is in the national interest to do so. In addition to the foreign policy advantages involved in which we would defer to the Department of State, these countries constitute useful markets for our industrial and agricultural output. We should not, of course, rush headlong into blanket MFN treatment of all such countries, but we should, in my view, authorize the President to make individual MFN arrangements on a country by country, quid pro quo, basis where the benefits are clear.

I mentioned earlier that other nations have urged us to adopt the Brussels Tariff Nomenclature system to make our tariff and product classification system consistent with most of the developed countries of the world. Without prejudicing the issue one way or another I think we should give this idea consideration. A universal tariff classification is obviously desirable and I am sure it would be very helpful to us in the Government and those in business to be able to use statistical data without having to go through complicated and tortuous comparisons of nomenclature. On the other hand, our present tariff was designed to meet our needs. So, the issue is important enough, I think, to merit our consideration in coming months.

Now, Mr. Chairman, I have briefly identified a number of trade policy issues which seem important to us in the Department of Commerce. There are others, of course. We will be following these hearings closely and we will do everything we can to cooperate with this committee in its examination of our foreign trade policy. We expect your deliberations to make an important contribution to the Nation's assessment of the next steps in this field.

Representative BOGGS. Thank you very much, Mr. McQuade.

I think before going into questioning we will hear from Mr. Greenwald.

Mr. GREENWALD. Thank you, Mr. Chairman.

I would like to apologize for the fact that Mr. Solomon is not able to appear this morning. He was particularly looking forward to it. I think he attaches a great deal of importance to the work this committee is doing and particularly wanted to be present here to participate in the discussion.

I think you already have the rather lengthy statement which was prepared for Mr. Solomon. It wasn't his intention to read you that lengthy statement. And I will follow his own purpose and just comment very briefly, summarize it very briefly, extemporaneously, if that is all right.

Chairman BOGGS. We will incorporate the statement in the record, without objection.

STATEMENT OF HON. ANTHONY M. SOLOMON, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

U.S. FOREIGN TRADE POLICY AND THE DEVELOPING COUNTRIES

INTRODUCTION

The developing countries, as that phrase is now commonly used, consist of well over 100 political entities. There are marked differences among them in size, population, degree of industrialization, and economic growth—so much so that it is misleading to speak of them in aggregate terms as though they were a homogeneous group of countries. But they do share certain characteristics in common: their per capita income is low; their level of industrialization is low; a large part of their labor force is engaged in agriculture with low productivity per acre and per man; and they all want to modernize their economies. Indeed economic growth has become a symbol of national worth and dignity. In human terms, the overwhleming majority of their people face the kind of grinding day-in, day-out, year-in, year-out poverty that leads to the "harsh, brutish and short" lives which is the prevailing condition in most of the world. (Table 1.)

TABLE 1.—*Gross national product per capita, by country*

[U.S. dollars]

Kuwait	3,290
United States	3,020
Sweden	2,040
Switzerland	2,030
Canada	1,940
Luxembourg	1,770
New Zealand	1,760
Australia	1,730
Denmark	1,650
Iceland	1,550
France	1,540
Germany, Federal Republic of	1,540
Norway	1,520
United Kingdom	1,500
Belgium	1,460
Finland	1,440
Netherlands	1,260
Czechoslovakia	1,200
Germany (East)	1,120
Israel	1,070
Austria	1,020
Puerto Rico	980
Poland	930
U.S.S.R.	890
Hungary	890
Italy	850
Ireland	800
Venezuela	780
Rumania	710
Japan	660
Bulgaria	650
Argentina	650
Trinidad and Tobago	590
Uruguay	540
Cyprus	530
South Africa	530
Spain	530
Greece	510
Mongolia	480
Singapore	460
Chile	450
Panama	450
Mexico	430
Jamaica	430
Malta	410
Lebanon	390
Yugoslavia	390
Albania	380
Cuba	360
British Honduras	360
Costa Rica	360
Barbados	360
Portugal	340
Surinam	330
Nicaragua	320
Hong Kong	320
Guatemala	290
Gabon	280
Colombia	270
Peru	270
El Salvador	260
Malaysia	260
Guyana	260
Turkey	240
Iraq	240
Ghana	230
Algeria	230
Mauritius	220
Brazil	220
Oceania	220
Jordan	220
Libya	210
Dominican Republic	210
Korea (North)	210
Rhodesia	210
Iran	210
Ivory Coast	200
Paraguay	200
Honduras	190
Ecuador	190
Saudi Arabia	190
China, Republic of	190
Syria	180
Tunisia	180
Liberia	180
Morocco	170
Senegal	170
Zambia	160
United Arab Republic	150
Philippines	140
Bolivia	140
Mauritania	140
Congo (Brazzaville)	140
Ceylon	130
Korea (South)	120
Cambodia	120
Sierra Leone	120
Cameroon	110
Thailand	110
Vietnam (South)	110
Nigeria	100
Vietnam (North)	100
China (Mainland)	95
Malagasy Republic	95
Sudan	95
Central African Republic	90
Pakistan	90
Yemen	90
India	90
Kenya	90
Afghanistan	85
Gambia	85
Togo	85
Swaziland	85
Uganda	80
Niger	75
Haiti	75
Chad	70
Congo, Democratic Republic of the	70
Dahomey	70
Guinea, Republic of	70
Indonesia	70
Nepal	70
Tanzania	70
Bechuanaland	65
Mali	65
Burma	65
Basutoland	60

TABLE 1.—*Gross national product per capita, by country*—Continued

[U.S. dollars]

Laos	60	Somali Republic	50
Angola	60	Ethiopia	50
Burundi	50	Upper Volta	45
Rwanda	50	Malawi	40

Source: World Bank Atlas of Per Capita Product and Population, IBRD, September 1966. The data are for GNP and relate to 1963 and 1964. It is stressed by the Bank that the figures should not be regarded as official and must be taken with some reserve.

These countries are moving forward with varying degrees of success. A few are sprinting ahead; a few are stagnating. On the average there has been progress but the pace of improvement is uneven and slow. In the first half of the sixties, proclaimed by the United Nations as the development decade, there has been no acceleration in the rate of economic growth of the developing countries as a whole. The rate of growth of per capita income, about 2 percent in 1960–65, was lower than in the preceding decade owing to an acceleration in the rate of population increase. (See table 2.) Thus the gap between the per capita incomes of industrialized and developing countries has continued to widen during the first half of the development decade.

TABLE 2.—GROWTH OF REAL GROSS PRODUCT OF DEVELOPING COUNTRIES BY REGION, AND OF DEVELOPED COUNTRIES, 1950–65

	Annual compound growth rates (percent)		
	1950–55	1955–60	1960–65
Developing countries [1]	4.7	4.5	4.6
Per capita	2.7	1.9	2.0
Asia	4.2	3.8	4.3
Per capita	2.2	1.5	1.8
Latin America	5.0	5.0	4.9
Per capita	2.9	1.3	2.0
Developed market economy countries	4.7	3.3	5.0
Per capita	3.4	2.0	3.7
Socialist countries of Eastern Europe and Asia [2]	9.8	8.2	6.7
Per capita	8.2	6.6	5.4

[1] Includes the following African and Middle Eastern countries: Algeria, Congo (Kinshasa), Ghana, Kenya, Malawi, Morocco, Nigeria, Southern Rhodesia, Sudan, Tanzania (Tanganyika only), Tunisia, Uganda, United Arab Republic, Zambia; and Iraq, Israel, Lebanon, Syria.
[2] Gross material product.

Source: UNCTAD secretariat document TD/B/C.3/34, Feb. 17, 1967, based on data supplied by the Statistical Office of the United Nations.

Trade is a means to economic growth. I would like to talk to you today about U.S. trade policy and the contribution it can make to the economic progress of the developing countries.

A. The importance of foreign trade to developing countries

The developing countries are far more heavily dependent on foreign trade than the United States and most other industrialized countries. For the equipment needed to build a modern economic structure and, all too often, even to import the necessary food to avert starvation, the developing countries are heavily dependent on imports from the industrialized countries. To pay for these imports, the developing countries must export. And trade is clearly the senior partner to foreign aid—about 80 percent of the developing countries' foreign exchange receipts stem from export proceeds. (See table 3.) While foreign aid is a welcome and most important addition to the developing countries' ability to acquire the goods and services they need for their economic growth—and often the margin which avoids their slipping backward—their growth prospects depend critically on the extent to which they can increase their foreign exchange earnings through exports.

TABLE 3.—DEVELOPING COUNTRIES: RECEIPTS AND USES OF EXTERNAL FINANCIAL RESOURCES

[In billions of dollars]

Year	Receipts			Total	Uses						Total
	Commodity exports (f.o.b.)	Foreign private investment (net)	Official flows (gross)		Debt service		Other investment income payments	Miscellaneous uses (net)	Commodity imports (c.i.f.)	Changes in official reserves (net: + = increase)	
					Amortization	Interest					
1957	25.4	3.4	4.5	33.3	0.8	0.2	3.5		29.7	−0.9	33.3
1958	24.7	2.6	5.1	32.4	1.0	.3	4.5		27.6	−1.0	32.4
1959	25.7	2.2	4.8	32.7	1.1	.3	3.5		27.2	+.6	32.7
1960	27.3	2.4	5.4	35.1	1.4	.4	2.1	1.3	30.0	−.1	35.1
1961	27.7	2.4	6.7	36.8	1.5	.5	2.1	2.8	30.8	−.9	36.8
1962	28.9	1.8	6.8	37.5	1.7	.6	2.3	2.1	31.1	−.3	37.5
1963	31.5	1.6	7.5	40.6	1.8	.7	2.6	2.3	32.4	+.8	40.6
1964	34.4	2.3	7.8	44.5	2.3	.8	3.0	3.2	34.9	+.3	44.5
1965	36.6	(1)	(1)	(1)	(1)	(1)	(1)	(1)	36.9	+1.0	(1)

[1] Not available.

Source: UNCTAD Secretariat document TD/B/82/Add. 1, July 20, 1966.

While the total value of their aggregate exports has been increasing year by year, from $21 billion in 1953 to $27.3 billion in 1960 to $36.5 billion in 1965, the developing countries have not shared proportionately in the dramatic growth-promoting spurt of world trade during the postwar era. Thus while the developing countries account for about 27 percent of world exports in 1953, this figure dropped to about 22 percent in 1960 and dropped further to less than 20 percent in 1965.

The root causes of this situation have been well documented in numerous academic studies as well as reports of various intergovernmental institutions. First and foremost is the heavy dependence of the developing countries on exports of primary commodities. About 85 percent of the export earnings of the developing countries as a whole is accounted for by exports of nonmanufactured primary agricultural commodities, crude minerals and metals, and petroleum. The dependence of particular developing countries on exports of a single product is even more striking, for example coffee, cocoa, rubber, sugar, cotton account for very heavy percentages—up to 80 percent—of the total export receipts of particular countries.

With the exception of petroleum, these commodities are not a dynamic and dependable source of foreign exchange. They are, by and large, subject to a low-income elasticity of demand; their prices fluctuate sharply because of variations in supply or cyclical changes in demand; several of them face growing competition from synthetic substitutes; and many are being produced in increasing quantities in the industrialized countries themselves.

In this situation, it is not at all surprising that the developing countries have been focusing their attention on an acceleration of industrialization and industrialization for export. World trade in manufactures has consistently exceeded the growth of world trade generally. The developing countries are anxious to break out of the straitjacket of dependence on a narrow range of products with an unpromising outlook in hopes of rapidly increasing the foreign exchange earnings they need to pay for their ever-increasing imports.

The developing countries have already achieved a measure of success in this regard. An analysis of imports of manufactures, from developing countries to the OECD countries combined,[1] reveals a yearly rate of increase of 15.5 percent between 1960 and 1964 and an increase of 16 percent from 1964 to 1965. An analysis of 49 commodity groupings over the 10-year period 1956–65 indicates an increase of 215 percent. (See table 4.) This relatively favorable picture, however, must be interpreted with some caution. First, exports of manufactures from developing countries are still only the small visible part of the iceberg—85 percent of their earnings are still accounted for by the unpromising primary or crude materials sector; secondly, the commodity composition is fairly narrow and concentrated on certain products, such as textiles, where they cannot expect large increases—indeed, the whole textile sector is fairly rigidly regulated at the present time under the international long-term arrangement governing trade in cotton textiles; and finally, only a relative handful of the 100-plus developing countries are currently benefiting from the recent rapid

[1] United States, Canada, Western Europe, and Japan.

increase in exports of manufactures and semimanufactures—African countries, for example, are almost totally absent from the figures on exports of manufactures.

TABLE 4.—LESS DEVELOPED COUNTRIES' EXPORTS TO THE OECD AREA BY CATEGORIES OF PRODUCTS

Category	Amount (millions)				Increase from 1956 to 1965 (percent)
	1965	1964	1960	1956	
Textiles and clothing (8 groups)	$1,122	$10,20	$598	$301	273
Foodstuffs and tobacco (8 groups)	462	428	315	256	80
Precious stones and jewelery (2 groups)	378	196	62	54	600
Articles of wood and furniture (4 groups)	170	159	61	39	336
Leather, leather and rubber articles, and footwear (6 groups)	174	158	105	79	120
Iron, steel, and metal articles (2 groups)	140	124	71	51	175
Chemicals (4 groups)	146	103	75	80	83
Paper and paperboard and manufactures thereof (2 groups)	11	12	3	10	10
Glass and ceramics (3 groups)	12	11	3	2	500
Miscellaneous (10 groups)	255	207	93	40	538
Total (49 groups)	2,870	2,417	1,393	912	215

Source: OECD Secretariat.

B. The Administration's approach to improving developing countries' export earnings

At the present time, and for the decade ahead, trade in primary products will continue to be the main source of export earnings of the developing countries. If we want to help these countries improve their trade earnings as a means to development, commodity trade is the place to begin.

1. *Primary commodities.*—This trade is plagued by a variety of problems: by persistent overproduction in some key products; by wide and destabilizing price swings in other key products; by severe competition from both natural and synthetic products produced in the industrialized countries, often under highly protectionist regimes; and by preferential arrangements in certain advanced countries that favor one group of primary producers over others.

There is no one solution to this range of problems. What is needed is a multifaceted approach tailored to the problems of specific commodity markets.

In the case of coffee which is the single most important agricultural commodity in the trade of the developing countries and absolutely critical to Latin America and certain African countries, the key problem is structural overproduction.

The International Coffee Agreement, which we helped to develop and actively support, has conducted a valuable holding operation. It averted a disastrous collapse of prices that threatened coffee trade in the early 1960's and it has kept coffee prices reasonably stable by supply control; that is, by keeping exports in line with demand. But more coffee is being produced than the world wants to consume; land, labor, and capital are being wasted in surplus production; and this very surplus production is undermining the agreement.

The critical next step is to help the producing countries move resources out of surplus production into more rewarding uses. We would hope to see a diversification fund become an integral part of the Coffee

Agreement. Access to the funds would be open to countries pursuing appropriate policies to curb coffee overproduction, and the funds themselves would be used for investment in products with a more promising future, including importantly food for domestic consumption where this is feasible.

At the Latin American summit meeting in Punta del Este, President Johnson made clear our willingness to lend $15 million to help initiate a coffee diversification fund that would be financed on a continuing basis by the producing countries themselves; and to match the contributions of other consuming countries by an additional loan of up to $15 million. The International Coffee Organization is working closely with the World Bank in developing the main features of the diversification fund.

Cocoa, a critical export earner for Ghana, Nigeria, and other African and Latin countries, is notoriously subject to wide swings in price because of variations in supply due to weather and insect attack. Cocoa prices averaged 17 cents a pound last year, 36 cents in 1959, 29 cents a few months ago. We cannot disregard the impact of these price fluctuations on the economic and political stability of the producing countries.

Negotiations looking toward an international cocoa agreement foundered in 1963 on the question of price. Producers wanted a price range that consumers believed would encourage overproduction, saddle the market with burdensome stocks, check consumption, and encourage the shift to substitutes. In the years since then, further consultations have been held both on price and on the mechanics and financing of a workable buffer stock scheme. Differences have narrowed appreciably and there is reasonable prospect that an agreement can be consummated in the near future that would give producing countries steady growing earnings and assure consumers a stable supply at reasonable prices.

The outlook is less promising in the case of sugar. The International Sugar Agreement has not been operative for many years—in fact, since Cuba refused to accept the rules. Our own trade is governed by our domestic sugar legislation which provides premium prices for supplying countries to the extent of their import quotas in our market. But the world market price has been seriously depressed for some years and adversely affects many low-income suppliers that sell a substantial volume of their output at the world market price.

Efforts to negotiate an international agreement that would strengthen the world price have proved to be very difficult, complicated by Cuba's intransigence on the matter of supply control, and by the unwillingness of certain advanced countries to provide reasonable access.

For many primary products of importance to the trade of the poor countries, improved access to the markets of developed countries is a major concern. Indeed, more than half of their commodity trade, petroleum apart, competes with similar or identical products produced and exported by the rich countries. Their mineral ores and metal exports face few trade barriers in the industrialized countries; demand is buoyant and future prospects are reasonably good. Natural rubber and some tropical fibers are similarly traded freely but the markets for these products have been eroded by the development of synthetics. For the developing countries dependent on these products the central objective must be to increase the efficiency of their production and marketing so as to meet the competition of synthetic substitutes on a price and quality basis.

There is, however, a wide range of temperate agricultural products in which the poor countries face an array of protective tariff and quota barriers that limit their access to the markets of the rich countries, and of subsidized exports from the rich countries that compete against them in third markets.

The developing countries are pressing for trade liberalization in these products. The prospects for substantial liberalization are not good. In virtually all developed countries, domestic agriculture is insulated in varying degrees from the free play of demand and supply by high price supports, direct subsidies, and import controls. The average income of the farm sector in the rich countries tends to be below that of other sectors in their economies, and the array of protective measures is intended to maintain and increase the income of this sector as a matter of equity.

The developing countries do not challenge the desirability of maintaining farm incomes in the advanced countries but they ask that measures to protect such incomes not be applied in ways that stimulate excessive production. Thus they urge that in lieu of high price supports, farmers' incomes be maintained by direct payments that do not inhibit consumption or unduly stimulate production.

We have recognized that agricultural support policies can have restrictive and disruptive effects on international trade. In the case of cotton, wheat, and feed grains, we have shifted from high price supports to direct payments and we have made our farm payments contingent on producers' cooperation with acreage control. Where surpluses have developed, we have stored them rather than dump them, or made them available on concessional terms to improve the diet and assist the development of low-income countries unable to purchase food on commercial terms. And we have taken precautions to insure that these food aid programs do not interfere with the normal pattern of international trade.

The developing countries have also asked the rich importing countries so to manage their farm economies as to give them a share in their markets and a share in the growth of these markets.

While existing U.S. legislation restricts sugar imports, we have set aside 35 to 40 percent of U.S. sugar requirements for imports. And in the case of meats, the present law permits imports equal to about 5 percent of domestic production before quotas would come into play.

The developing countries have urged the rich countries to assist their farmers by some form of adjustment assistance, of the kind applicable in industry, rather than through protective devices. We are to a considerable extent using a form of adjustment assistance in the farm sector. Thus we are helping marginal farmers to move out of agricultural through our cropland adjustment program and through training programs to enable them to develop skills in industrial employment.

We would hope that the increased effectiveness of the supply management and flexible pricing programs, the continuing shift of marginal farmers to nonagricultural occupations, and the increased role of food aid will make it possible for us progressively to liberalize agricultural trade.

This will necessarily be a slow process. The Kennedy Round has demonstrated that substantial liberalization of agricultural products is not easy to achieve. But it is important that we work together with other developed countries in the years ahead to consider how to deal effectively with all major barriers to less developed countries' agricultural exports.

In the case of tropical products produced solely in the low-income countries, we have no barriers to trade or consumption. Some developed countries do subject these products to high-revenue duties that inhibit consumption or to preferential tariffs that discriminate against certain low-income suppliers in favor of others. We believe the developing countries have a legitimate case that commodities produced solely in the tropical zone should not be a source of revenue to the rich countries at their expense. They have suggested that where such fiscal levies cannot be removed, a share of the receipts be turned back to them.

As to tariffs and quotas that restrict trade in tropical products or discriminate among primary producers, we would hope that all the rich countries would provide duty-free access for these products from all the poor countries. We shall continue our efforts in this matter.

A review of our trade policy as it affects the primary commodity trade of the poor countries would be incomplete without noting the important role that compensatory financing can play in assisting low-income countries whose export earnings fall off for reasons beyond their control. We have supported the liberalization of the compensatory financing facility in the International Monetary Fund, and developing countries are making increasing use of that facility. We are also considering the feasibility of supplementing that facility in the case of deep or protracted shortfalls in the export earnings of developing countries that are disruptive of their development and that may require longer term assistance than the Monetary Fund facility provides. The World Bank has developed a proposal for such a supplementary facility. The specifics of the Bank scheme raise a number of serious questions and we are not prepared to endorse it as formulated, but we are studying variants of the proposal that we may be able to support.

Even if everything were done that could reasonably be done to improve conditions of access for the primary product trade of the developing countries, to stabilize commodity prices at reasonable levels, and to supplement export earnings when shortfalls occur, the developing countries would still be vulnerable because with a few notable exceptions the commodities on which they depend are not dynamic. Demand is not likely to grow commensurately with the increase in world trade and world income.

The fundamental answer to the trade problems of the developing countries is to diversify their output and their exports and thus reduce their excessive dependence on a few traditional commodities. Some benefit can come from a more diversified commodity base and from a substantial attack on their food problem to lessen their dependence on food imports. But they must also industrialize. While continuing to produce raw materials for the world market and increasing the range of materials they produce, they must expand their industry.

2. *Regional integration.*—The developing countries have tried to develop industry—on a national basis—each country shielding its infant enterprises behind protective walls. The result, by and large, has been high cost inefficient industry with little growth potential. However, by joining together with their neighbors and dismantling the trade barriers among them, they can produce for a wider regional or subregional market. In the larger market, their industry would not be limited as it is today to light consumer goods. They could move in time to more complex intermediate and capital goods. Shielded for a time by their outer tariff walls from the export competition of the advanced countries, enterprises would be exposed to more tolerable competition within the broader regional market and would reach a competitive position in international markets much earlier and more effectively. And not unimportantly, foreign investment would be stimulated to locate within the grouping.

Recognizing the benefits that could come from a continentwide market such as the United States enjoys and spurred by the example of the European Common Market, low-income countries have been moving together to develop free trade areas and common markets.

At the Latin American summit meeting in Punta del Este, the countries of Latin America undertook a commitment of major significance to move forward toward a full Latin American common market. And the United States undertook a parallel commitment to help them with adjustment assistance when the common market gets underway.

We would hope to see similar movements among developing countries in other hemispheres. We believe that regional integration among neighboring less-developing countries that are at roughly the same level of development can be a positive force for economic growth and stability. It can also be a force for political cohesion. The difficulties in such undertakings are formidable, including the resistance of protected enterprises to exposure to increased competition and the concern of each country in the group to get a fair share of new enterprises. The benefits of integration can be realized only if the governments have the political will to push ahead. But if the political will is there, encouragement and support by the rich countries could be quite fruitful.

3. With respect to trade in manufactured goods, the principal point I wish to discuss with the committee is the question of trade preferences for developing countries.

There is nothing very new or startling about trade preferences. We have had preferential trade ties with the Philippines for decades. The extensive network of British Commonwealth preferences dates from 1931. The French and a few other European nations had similar arrangements with African areas for many years. What is new is that the developing countries themselves have recently become dissatisfied with this uneven situation, and with good reason. Neighboring countries of the developing world who frequently produce the same kinds of products face discrimination in developed country markets when one receives a preference and the other does not simply because of the historical fact of colonial relationships. The system pits the poor against the poor and has neocolonial overtones. It is made to order for creating friction and tensions among the very countries who most of all need to cooperate with each other economically and for their mutual prosperity. And one area of the world—Latin America—has historically had not trade preferences in any market; instead, it has had to cope with discrimination against its exports nearly everywhere. Moreover, developed countries, including the United States, frequently face discrimination because many of these preferential arrangements are reciprocal.

A new situation arose several years ago, however, when it became apparent that discriminatory trade arrangements of this kind were on the increase. The preferences which individual African countries enjoyed in their former metropoles were extended to all of the six member states of the European Common Market. An association agreement between Nigeria and the EEC was concluded last year after lengthy negotiations, thus extending preferences to a single African country which had previously had such advantages only in the Commonwealth markets. A large number of other African countries—the Maghreb and three east African countries—have been seeking some kind of special trade arrangement with the European Common Market.

This growing risk of further proliferation of trade arrangements which discriminate among developing countries was from our viewpoint a most unfortunate development, both politically and economically. It threatened to fragment world trade; it increased the pressures from Latin America for exclusive trade arrangements with the United States; it was a retrogression toward special spheres of influence.

We have always felt that the best way to assist the developing countries is for all industralized countries to join together in a common effort to help all of the low-income countries. The developing countries themselves felt that a more desirable course of action would be to replace the network of existing preferences which are selective as to product and countries by a general system of trade preferences by all industrialized countries for the benefit of all developing countries and without reciprocal preferences.

In early 1966 the United States, United Kingdom, France, and the Federal Republic of Germany began to explore some of the issues involved in trade preferences pursuant to a mandate from the OECD Ministers. Our own participation in this exercise was, of course, severely circumscribed by our own position of scepticism concerning the workability of any scheme of preferences and, indeed, our basic reservation on the idea as a matter of principle. It became quite apparent to us in the executive branch that this posture which the United States had maintained since the issue of trade preferences first arose in 1964 was ill-suited to our political and economic interests. Politically, we found ourselves virtually isolated from all the developing countries, and most of the industrialized countries as well. Economically, our reservation in principle and scepticism precluded our having much influence over the proliferation of discriminatory arrangements and also reduced our influence with regard to the specific workings of a preference scheme which other industrialized countries indicated they might put into effect whether or not the United States took part. An important precedent in this regard was the unilateral announcement by Australia in 1965 that it intended to apply a system of trade preferences of its own for developing countries.

This, then, was the general situation confronting President Johnson when he undertook to meet with his fellow chiefs of state of the Inter-America System at Punta del Este last April: a trend toward proliferation of discriminatory preferences which our own adherence to the principle of most-favored-nation treatment had done little to check, and an awareness that the Latin American countries, like other developing countries, are anxious to improve their opportunities for access to the markets of all industrialized countries.

After a searching examination and analysis within the executive branch and preliminary consultations with the Congress, the President agreed that he would indicate to the Latin Americans that we are prepared to explore the feasibility of a system of generalized preferences. The President told his fellow chiefs of state:

> We have been examining the kind of trade initiatives that the United States should propose in the years ahead. We are convinced that our future trade policy must pay special attention to the needs of the developing countries in Latin America and elsewhere in the world.
>
> We have been exploring with other major industrialized countries what practical steps can be taken to increase the export earnings of all developing countries. We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this.
>
> We think this idea is worth pursuing. We will be discussing it further with members of our Congress, with business and labor leaders, and we will seek the cooperation of other governments in the world trading community to see whether a broad consensus can be reached along these lines.

The present hearings are very timely since it gives us in the executive branch an opportunity to discuss further with the Congress—as the President promised would be done—how we presently believe the question of trade preferences will evolve in the coming months and years. I wish to stress that the President has committed the United States only to an exploration of preferences to see whether a consensus can be reached. There are many difficulties—both technical and policy—to be overcome if we are to reach a consensus. We also need the advice of Congress and our business and labor leaders as this matter is pursued.

Multilateral discussion of the preference question thus far has indicated two different kinds of approach in order to deal with three interrelated issues: depth of cut, the means to insure that any preferences actually extended would in fact be temporary, and safeguards for domestic interests in the industrialized countries. These are by no means the only outstanding issues but they are, we believe, the really crucial ones.

One approach envisages the establishment of duty-free quotas for preferential imports from developing countries. Under this approach, the industrialized countries would agree to permit the importation of some fixed percentage of domestic production or consumption of products from developing countries on a duty-free basis. This approach contains its own built-in safeguard against excessive adverse impact on industrialized countries—depending, of course, on the size of the percentage which might be agreed upon—since, in setting the percentage figures, governments would presumably take into account the extent to which their own domestic interests could absorb increased imports from the developing countries without serious injury.

There are, however, a number of difficult problems with this approach. One is the absence of any mechanism for insuring that preferences thus established would in fact be temporary. It has been suggested that such a scheme might operate for say 10 years after which the situation could be reviewed to see whether it should or could be extended, modified, or terminated. We are not sure this is politically realistic because it is easy to anticipate the pressures that would be exerted when the time for review occurred to extend the system rather than raise duties against the products of developing countries. Moreover, during such a 10-year period reductions of barriers among the industrialized countries themselves might be inhibited because of vested interests in maintaining margins of preference.

An alternative approach to this range of issues might be to visualize preferences for developing countries as the extension in advance to developing countries of trade barrier reductions which the industrialized countries themselves would be prepared to undertake on a most-favored-nation basis over a longer period of time. If an agreement could be reached with other industrialized countries for this kind of approach, the problem of insuring that preferences would in fact be temporary would automatically take care of itself since the preference margins would erode as trade barriers were reduced on an MFN basis. There are numerous difficulties with this approach as well, however. First there is the question of whether any industrialized country, including the United States, is prepared so quickly after the major reductions of trade barriers recently concluded in the Kennedy Round to enter into any kind of commitment to eliminate duties. I believe the realistic answer to this is no. This has accordingly led to the suggestion that the margin of preference under what has been called the "advance cut" approach would have to be something other than duty-free treatment across the board. This, of course, might reduce the attractiveness of the scheme to the developing countries. The question of safeguards under this approach would no doubt have to encompass the traditional devices such as exclusion of products deemed to be particularly sensitive, and an escape clause procedure in the event imports from developing countries threaten or cause serious injury to domestic interests. The case of cotton textiles of course is a special one in that the developing countries are already highly competitive in industrialized country markets and therefore do not need preferences. Moreover, so long as cotton textiles are subject to quantitative restrictions, tariff preferences would not be of any significant benefit to developing countries. In this particular sector, the developing countries will have to look for a gradual liberalization of quantitative restrictions rather than tariff preferences if they are to capitalize on the competitive advantage they already have.

I would like to draw the committee's attention to an important aspect of the second approach I summarized a moment ago; namely, the link between reductions of trade barriers for developing countries and the future of trade barrier reductions among the industrialized countries themselves. As you all know, the future pattern of our trade relations with the industrialized countries of Western Europe is difficult to predict with any certainty. We have of course given our full support and encouragement to the European Economic Communities and, as the President stated last October, we look forward to a strong, united Europe—with Great Britain a part of it. We thus hope the British will succeed in their current efforts to join the European Communities. We are also aware that if the British effort succeeds, it is likely that a number of other European countries will join the Common Market or possibly associate with the Communities in some manner or other. The precise geographic dimensions and form of membership or association by the various European countries simply cannot be predicted at this stage. It is clear, however, that as trade barriers are reduced among a major grouping of European countries without the benefits of such reductions being extended to the United States, our own competitive position in this enlarged market will be adversely affected. We have accordingly felt that it will be necessary at some stage in the not too distant future—albeit after the Kennedy Round reductions have been digested—to visualize further reductions to the mutual benefit of both the United States and Western Europe, and the other major trading countries of the industrialized world. This is one reason why we have been giving close attention to the feasibility of establishing some kind of meaningful link between the establishment of a possible temporary preference scheme and the future reduction of barriers among the industrialized countries as a whole.

Another major policy issue involved in the preference question is what is to be the disposition of existing preferential arrangements. As I mentioned earlier, there are many such arrangements currently in force with the notable exception of Latin America. Latin America has been particularly critical of this situation and this, indeed, was a contributing factor to the President's decision at Punta del Este to commit us to an exploration of the feasibility of a generalized system of preferences. It has been our thought that we could develop a scheme which would subsume the existing preferences enjoyed by particular developing countries in particular markets. Some difficulties have come to light on this point, however, and we may succeed in only partially achieving our objectives. For example, the developing countries of the Commonwealth and the African countries associated with the European Communities all enjoy duty-free access to these respective markets. If a generalized preference scheme does not take the form of duty-free entry, existing beneficiaries might feel they are obtaining lesser benefits than they now have even though this point is debatable.

There is also the question of reverse preferences, that is the preferences currently enjoyed by some industrialized countries in the developing countries to whom they accord preferential treatment. We for our part have made it clear that such arrangements must be terminated as part of any generalized scheme since we do not consider it reasonable that the United States should be expected to accord preferred treatment to developing countries discriminating against U.S. exports. These arrangements, moreover, convey no benefits to the developing countries who are denied the opportunity to buy in the most favorable market.

Even if it should not prove possible to eliminate completely the preferential access to certain developed country markets that certain favored poor countries now enjoy, agreement on a new system of preferences extended on a nonreciprocal basis by all developed to all developing countries would be a major achievement. It would check the further proliferation of special discriminatory arrangements, the thrust toward new bilateral trading blocs; and it would reduce the range and significance of existing preferences.

There are other policy and technical issues related to preferences that I could discuss with the committee, but I believe the foregoing is sufficient to indicate the range of complexities which are involved.

I would like to invite the committee's attention to an excellent recent survey by the UNCTAD Secretariat of the key issues. I will make available to the committee copies of this document (app., p. 380) and would have no objection if the committee wishes to incorporate it in its report on these hearings. This particular document is being discussed at this very moment in Geneva where the UNCTAD Group on Preferences, on which the United States and 33 other governments are represented, began its meetings on July 4. The document to which I have referred and the specific proposals advanced therein illustrate some of the complexities and the options open to us and other countries. The United States will not enter into any kind of commitment on any of the key details of the suggestions presented by the UNCTAD Secretariat at the meeting now in progress. We believe, however, that the discussions based on this very competent review should serve to clear the air a bit and give us a better appreciation of how the developing countries themselves view the operation of a possible preference scheme. We need such an understanding because a workable scheme of preferences—if it is to be worth the effort which would have to go into it—would have to be one which has the support not only of the industrialized countries but of the developing countries themselves.

With the President's announcement at Punta del Este, the work of the small group of countries in the OECD entered a new phase since the United States no longer maintained a basic reservation on the principle of preferences. Still it appears that there are important areas of difference between the approaches to some of the key issues involved in preferences. The UNCTAD document to which I have referred gives a succinct and quite accurate exposé of these differences in approach.

The time sequence of events is that a report by the small group will be considered within the regular OECD framework this fall, culminating in the meeting of OECD ministers on November 30–December 1. If, at that time, a general consensus can be reached, there might well be a joint OECD proposal to be put before the second United Nations Conference on Trade and Development to be held in New Delhi beginning February 1, 1968. On the other hand, there may be no joint proposal but alternative ideas presented for consideration at that Conference. No matter which course of action may transpire, the United States for its part does not expect that any proposal or proposals will be presented on a take-it-or-leave-it basis but that, instead, the views of developing countries and detailed discussions to develop a workable scheme will require many meetings over a period of many months both during and after the New Delhi Conference. During this period, of course, the United States will have to be refining its own views in consultations with business and labor and with the Congress since, of course, the United States will not be in a position to extend trade preferences without new enabling legislation. The actual mechanism for ascertaining these views will be part of the long-range study of trade policy which the President has charged Ambassador Roth to carry out.

Let me conclude my presentation by a brief commentary on our trade policy as it relates to both primary products and manufactured goods. The United States has been the prime mover in the worldwide effort to reduce unnecessary barriers to trade. This long effort has recently been crowned with success in the outcome of the Kennedy Round negotiations. There has been some unfortunate—and in our view inaccurate—press commentary to the effect that the Kennedy Round accomplished little or nothing for the developing countries. Let me give you our own appraisal of this situation.

One of the principal objectives throughout the Kennedy Round negotiation was to reduce barriers to exports of developing countries to the maximum extent possible. The U.S. position throughout the negotiation was conditioned by its commitment to this objective. The U.S. concessions benefiting the developing countries cover $900 million of their exports to the United States in 1964. Of this total, the United States is completely eliminating the duty on more than $325 million, either under section 202 or section 213 of the Trade Expansion Act. Provisions of the act are such that eliminations under section 213, accounting for at least $45 million of imports from developing countries, do not need to be staged over a 4-year period. A substantial portion of U.S. concessions—nearly $500 million—are on manufactured and semimanufactured products from developing countries. This represents a significant reduction of our tariffs on items of interest to the developing countries. We made these concessions, moreover, without seeking reciprocal tariff reductions by the developing countries in keeping with the negotiating principle accepted by all the industrialized countries that full reciprocity could not be expected from the low-income countries.

We have recently completed a detailed analysis of U.S. concessions in relation to a list of the products which the developing countries themselves have declared to be of export interest. This list (see appendix 2) covers 1,376 different tariff classifications of the Tariff Schedules of the United States in which the 1964 trade interest of the developing countries was $622.7 million. The United States is making tariff concessions on 1,160 of these items accounting for $489.8 million of their 1964 trade interest. Thus the U.S. concessions will cover approximately 84 percent of the items requested and 79 percent of the developing countries' trade interest in the items contained in this composite list.

We do not yet have similar detailed analyses of the significance for developing countries of concessions made by other industrialized countries but we know that, in general, they are of a comparable order of magnitude. The composite effect of the vast reductions by all industrialized countries is that the trade opportunities open to the developing countries are substantially better than ever before.

I would not wish these comments to be misconstrued as implying that developing countries will obtain the major benefits from the Kennedy Round. It is quite clear that trade between the United States and other industrialized countries will be the major beneficiary. But the implication that nothing was done for the developing countries is very much wide of the mark.

We in the executive branch are delighted with the successful outcome of the Kennedy Round. We recognize that a period of reflection will be needed to assess—and digest—the results, and that it may be some time before the United States and other major industrialized countries will be ready to undertake another assault on the remaining barriers to trade. But I also would not wish to end this presentation by implying that the Kennedy Round is the end of the road. Indeed, as the President stated at Punte del Este, "The process of freeing trade from unnecessary restrictions will not come to an end when the current and important Kennedy Round negotiations are completed."

Not all of the issues we and our negotiating partners had hoped to come to grips with during the Kennedy Round could be dealt with during the marathon sessions of the final months. One issue in particular of major interest to the developing countries has been left over for further consideration next fall. That is the question of extending the benefits of the Kennedy Round reductions to the developing countries without the normal staging requirement. The United States has not taken a firm position on this point. It would, of course, require specific legislative authority. If this were done in a preferential way, that is covering all products but for developing countries only, it would constitute a precedent for the longer term problem of temporary tariff advantages. We will be exploring this issue with our major trading partners over the coming months and, of course, with the Congress.

TESTIMONY OF HON. JOSEPH A. GREENWALD, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL TRADE POLICY, DEPARTMENT OF STATE

Mr. GREENWALD. What we tried to do in our statement, Mr. Chairman, is to focus on the question of U.S. foreign trade policy and the problems of the developing countries.

I think by general consent this is one of the major trade policy areas which we perhaps have not yet dealt with adequately, and one we will have to face in the coming months and the coming years. Although I think the developing countries themselves have perhaps underestimated the benefits they will receive from the Kennedy Round, they have taken the position that the Kennedy Round was not really the answer to their problems, and that further steps would have to be taken designed specifically to deal with their trade flows.

We have laid out in the statement our estimates of what the benefits will be as a result of the Kennedy Round, which we think will not be limited just to the trade that is presently flowing from the developing countries, but also to additional trade that will emerge as they increase their developing industrialization.

Nevertheless, it is quite clear that the less developed countries have not achieved what they consider to be an acceptable level of economic activity and industrialization, and that we will have to focus our efforts in the future on working out policies which will help them.

But the trade problems of the developing countries need to be looked at in perspective. The prepared statement makes clear that in terms of present trade, the vast bulk of their export earnings come from exports of primary products. The figure is about 85 percent. And, therefore, the question of trade and pricing of primary products, particularly tropical products, is of extreme importance to the developing countries.

I think, however, that the U.S. Government has a fairly well-established and longstanding policy of trying to deal with trade in primary products, in the first instance by achieving improved access to markets, by eliminating tariff and nontariff barriers as well as internal taxes, where that is possible.

Commodity policy has to be pretty much on a case-by-case basis. It has been possible to work out commodity agreements in some areas. And we are looking into other areas where it may be possible in the future. This again is spelled out in the statement where the history, for example, of the coffee agreement, and the prospects for negotiation of a cocoa agreement are reviewed.

The second area where we think the developing countries can improve their economic and trade position is through regional integration. The problems of regional integration for the developing countries are substantially different from those in Europe that had to be solved to achieve what is now called the European Communities, instead of the European Economic Community. But the advantages which would flow from larger markets, we think, are just as important for the developing countries as for the industrialized countries.

In the case of Latin America in the recent meeting at Punta del Este there was an undertaking that the Latin American countries themselves would move toward a common market. It is expected to be achieved over a number of years. And we think this will have major benefits for the developing countries and the industrialized countries as well.

The third area covered in our paper, which I would like to spend a little more time on, is the question of special tariff treatment or preferences for the trade of the developing countries, particularly in manufactured and semimanufactured goods.

The reason I would like to devote a little more time to this subject is that it is really the major trade policy problem that we may be facing in the coming months and years.

The developing countries have argued that most-favored-nation treatment is really not most-favored-nation treatment, not equal treatment, when you have such wide disparities of economic strength and ability to compete.

Just as some people in this country feel they are disadvantaged, so the developing countries feel they have suffered a disadvantage, and they need what might be called a "head start" in international trade terms. They press their request in this field in the form of a proposal for a generalized system of nonreciprocal preferences. What this means is that all the industrialized countries would give to all the developing countries preferential treatment. I think they have all generally agreed that this would be a temoparary phenomenon, designed to give them the opportunity to industrialize and to become more competitive.

Another element which has led people to consider the possibility of a general system of preferences is that since the formation of the European Economic Community and its association with certain African countries, there has been a proliferation of special arrangements. Countries like Nigeria have obtained similar association arrangements with the EEC, and other countries in Africa and elsewhere have been seeking special treatment. We have considered that this is an undesirable development, both in political and economic terms this kind of closed north-south relationship, we think, is not the most desirable way to organize either international trade or international political relations. And the two are closely related.

For this reason the idea of a generalized system which would overtake and perhaps subsume the existing arrangements, including those within the Commonwealth, presents some advantages. Again, if the United Kingdom application for admission to the Common Market is successful, some of the additional problems relating to the Commonwealth and the treatment of Commonwealth trade in the United Kingdom can perhaps be dealt with in the wider context of generalized preferences.

These are some of the reasons, then, why both the developing and industrial countries are giving serious consideration to seeing whether a system of generalized preferences can be worked out.

As far as the Latin American countries are concerned with whom we have special relations and special concern, they have been left out of all the existing special systems. As far as their trade with the United States is concerned, they receive the same treatment, for example, as African countries. On the other hand, in Europe their exports, such as coffee and cocoa, are discriminated against. For this reason they have sought either special arrangements between the United States and Latin America, or sometimes they have talked about a system of "defensive" preferences which could be negotiated off against the European-African system.

In any event, underlying these various trade policy and political issues has been the basic factor that economic growth in the developing countries has not really been adequate, and that increasing foreign trade is one of the key elements in trying to increase the level of economic activity activity in the developing countries.

In terms of primary products, the possibilities for exports are not growing, due to the well-known problems of the growth of synthetics, the fact that the industrialized countries themselves are producing more of the same raw materials, and that the demand itself is not very dynamic.

I think everybody has agreed that the only real long term solution to the problem of economic development is the growth of trade of the less developed countries and that this must take place in the field of manufactured and semimanufactured products.

At Punta del Este President Johnson took us perhaps a step further in our consideration of the preference issue by saying that he would undertake to consult with the other industrialized countries to see whether a consensus could be achieved on a generalized system of preferences which would be generally acceptable. In the course of this he said that he would naturally be consulting with private interests in the United States and the Congress as well, since, if we were to depart from our basic policy of most-favored-nation treatment, we would need legislation. Most-favored-nation treatment is the policy we have had, in conditional or unconditional form, for about 145 years or so. And I think that we are all agreed that we would have to examine the situation extremely carefully before we proposed legislation which would change such an important and longstanding policy.

This search for a consensus on an acceptable system of generalized preferences has already begun in the OECD. As is explained in the statement, there is a small group of four countries, the United States, the United Kingdom, Germany, and France, looking at the various issues involved to see whether we can come out with a generally acceptable system. Some of the problems that have arisen there are spelled out in the statement: such questions as how to make sure that preferences are temporary, how to define a developing country, and what happens to existing preferences, not only those enjoyed by the developing countries, but also the preferences enjoyed by the industrialized countries in some developing countries.

This work is to continue for the next 2 or 3 months. And the subject will then ultimately be considered in November at the ministerial meeting of the OECD.

If we can proceed along these lines toward the consensus that the President talked about, the ultimate objective would be to put before a meeting of the United Nations Conference on Trade and Development an outline of a generalized scheme which the industrialized countries would be willing to consider. This meeting takes place in New Delhi in February of next year. In the view of the developing countries, it would be a major step forward in providing help for them if the industrialized countries were to come forward with a generally acceptable scheme.

As far as the domestic situation is concerned, I think Ambassador Roth has already talked about his mandate from the President to work on trade policy. The question of preferences will be one of the major issues to be discussed in the study group and with other interested bodies in the United States, and with the Congress as well.

Then there will be international discussions.

And finally, as we see the timetable and if all goes along the lines I have outlined, we will probably be coming back to the Congress for legislation in early 1969. We need a period for reflection and analysis of new commercial policy developments before deciding what sort of legislation we should seek.

Although we would not be looking for legislative action for a couple of years, we certainly would continue to consult closely with the Congress at every step of the way to make sure we would have the understanding of what we were trying to do, and that this was a feasible policy to follow.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much, Mr. Greenwald.

Mr. Reuss, do you have any questions?

Representative REUSS. Yes; thank you, Mr. Chairman.

I certainly want to express my support of President Johnson's approach at Punta del Este to this question of preferences to the developing countries on a generalized, nondiscriminatory basis. I think that it would be a very poor thing if the world became divided up into Hjalmar Schacht enclaves. And I think the administration is on the right track there.

I am hopeful that the Congress, and perhaps this committee, can give some formalized support to what we are doing. I certainly can't complain that this is being pursued at a low level, since the President has very forthrightly put his prestige on the line on this. And I would hope that it could be a major and continuing U.S. bargaining point.

I am interested in the tour of the horizon contained in yours and Mr. Solomon's paper on the export earnings of developing countries and the primary products. Particularly, I was interested in what has been said about sugar. Would you share my impression that if all the primary commodities involved a change in policy by some of the developing countries so that they produce less of the future increment to their needs in sugar in the next 15 or 20 years themselves, and give the reciprocal countries an opportunity to produce a larger percentage, that this would be about as good a foreign exchange for many of the developing countries as one can think of? And that this one commodity, if the developed world is prepared to make some rather important changes in its domestic policies, offers the possibility of a large-scale improvement in foreign exchange earnings by many countries, including at least a dozen in Latin America?

Mr. GREENWALD. I think the general idea of maintaining a certain share of the market for developing countries is one that is embodied in our own legislation, and one that we could support on policy grounds as well.

Representative REUSS. We have, I think, under our present system, around 35 or 40 percent dedicated to imports.

I wonder how much we know about relative costs of products and what it costs to maintain 60 percent of our domestic consumption under home production.

Mr. GREENWALD. I think that would be a little hard to answer.

Representative REUSS. And what it costs the French, the Germans and the other beet sugar producers.

Mr. GREENWALD. In a general sense, where you have a very high degree of protection, whether it is in agriculture or industry, there is some economic cost involved. My impression is that the beet sugar industry has probably become more efficient over the years, and that perhaps that the disparity is not now as great as it originally was when the sugar legislation was first instituted. I think in any kind of interference with the normal market there is bound to be some economic costs. I think the situation in Europe is perhaps developing into an even more costly situation, because the plans in the European Economic Community call for an increase in their output to the degree that they will be actually exporting on a subsidized basis. In this situation you have a double cost, not only the price of the product domestically, but the cost of subsidizing exports.

And this is perhaps one of the more important developments that it might be possible to tackle if we could reach the point of an international discussion of the sugar situation. This hasn't been possible so far, for two reasons, as spelled out in our paper. One, Cuba has not been willing to consider a realistic export quota which would have to be part of any plan. And, secondly, some of the industrialized countries, particularly the EEC, are not yet willing to consider the possibility of limiting their own expansion of production.

Representative REUSS. Cuba's position, of course, I would judge, resulted not only from its sugar production potential, but from its international political position. Do you need Cuba to work out an international sugar agreement? I don't see why. If Cuba wants to be a dog in the manger on sugar, I don't see why she couldn't be hermetically sealed from the non-dog-in-the-manger world.

Mr. GREENWALD. I don't pretend to be a sugar expert. I will try to answer that, subject to correction by the people who have followed sugar in much greater detail than I have. But my impression is that it would be hard to isolate as large a producer as Cuba from the international market and from an international marketing agreement, if that is what you contemplate. It is not just the question of Cuba's direct exports on the world market, but she also has a long-term contract with the Soviet Union. What this means is that you would have to isolate the Soviet Union, too, because what the Soviet Union has apparently been doing is exporting some of the sugar. It is not clear whether it is a direct reexport of the Cuban sugar that she had to take under a long-term arrangement, or whether she is using the Cuban sugar domestically and then exporting her own beet production. But these two elements would make it extremely difficult to try to reach an agreement without their accepting commitments under the arrangement.

Representative REUSS. You say the settlements. Is the other settlement the EEC's present production policy?

Mr. GREENWALD. Well, certainly the anticipated production—what they have been talking about in terms of their targets for production. The common agricultural policy as it applies to sugar, will apparently lead to substantial increases in production within the Community.

Representative REUSS. We have not been as high level in our deprecating the EEC's sugar outrages as we have been in, let us say, the President's excellent Punta del Este observations on trade preferences or LDC manufactured goods; have we?

Mr. GREENWALD. If you mean has the President made a statement on EEC sugar policy, the answer is "No".

Representative REUSS. Who has deprecated that, and at what level?

Mr. GREENWALD. I don't know that it has been formally the subject of a deprecatory official statement by the U.S. Government. The way it really came out—and it wouldn't have come out, I guess, in formal public statements—is that the Secretary General of the UNCTAD, Dr. Prebisch, proposed that there be a standstill on production among the industrialized countries. The U.S. response was a positive one. We thought this was perhaps one way—an intermediate way—to deal with the sugar problem. But it hasn't been possible to achieve agreement among all industrialized countries. And I think that possibility fell by the wayside.

Representative REUSS. What was the forum?

Mr. GREENWALD. I think this was in an UNCTAD sugar consultative group that was meeting in Geneva to see whether the basis was there for an international negotiation of a revived international sugar agreement.

Representative REUSS. What was the term of life of the International Sugar Agreement? I am not even sure it ever lived.

Mr. GREENWALD. My recollection is that it was effective for a while. I think that there still is a sort of a framework agreement. There is an International Sugar Council, if that is the proper term. But the Agreement isn't operative at the moment. I am sorry, I just don't know whether it had a termination, whether it had a limited period of life, or not.

(The following statement was subsequently supplied for the record:)

The International Sugar Agreement of 1958 was scheduled to expire December 31, 1963. Its export quota and related economic provisions became inoperative as of January 1, 1962, but the statistical work of the International Sugar Council continued. For this purpose and because the Sugar Council provided a useful forum for discussion, the Agreement was extended by protocol, in 1963 for two years, and in 1965 for one year through 1966. A further protocol to extend the Agreement through 1968 is now before the Senate.

Representative REUSS. As I review the various primary commodities which, as you point out, account for 80 percent, I believe, of the exports of the LDC's—coffee, cocoa, rubber—these other commodities other than sugar don't seem to me to offer near the possibilities for doing a great deal of good for the developing countries and removing the need for foreign aid which is otherwise going to be necessary at a given level if the LCD's are to survive. I would think that sugar ought to be consuming more time at a higher level within our executive branch than I think it does now.

Mr. GREENWALD. I think we can agree that there are a limited number of products on which you can do something internationally in terms of any kind of international arrangement. The products that have been under active discussion, if they are not yet in formal negotiation, are cocoa and sugar. For the reasons that we talked about earlier, it hasn't been possible to get very far on sugar. But it still is being actively considered. As a matter of fact, I think the consultative group was talking about Dr. Prebisch undertaking some consultations in key capitals to see whether it is possible to proceed with an international agreement on sugar.

Representative REUSS. Thank you.

And to conclude this part of the discussion, I would explain to the chairman that I am quite confident that Louisiana cane sugar production is a lot more economic than Wisconsin sugar beet production.

Chairman BOGGS. I would say to my good friend that is a very complex subject.

The gentleman from New Jersey?

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. McQuade, and Mr. Greenwald, would you comment on this—on the President's power to negotiate and implement the antidumping agreement without further congressional approval?

Mr. McQuade. I believe this is within his power, as we understand it.

Representative Widnall. So that once the present negotiation becomes a fact——

Chairman Boggs. Excuse me. I didn't hear the answer to that question.

Representative Widnall. It is within his power, I believe he said.

Chairman Boggs. He didn't qualify it?

Representative Widnall. You didn't qualify it, did you?

Mr. McNeill. Mr. Widnall, if I may, the negotiation on the antidumping code was a negotiation whereby the President did not negotiate any changes in the Anti-Dumping Act that was enacted by the Congress in earlier years. Pursuant to the Anti-Dumping Act the administration over the years, several administrations over the years have spelled out administrative procedures. And it is in the area of administration that the negotiations took place in Geneva. And so what the President has done through his chief negotiator has been to conclude an antidumping code which provides commonality of procedure internationally which in our judgment will be of substantial benefit to U.S. exporters.

Representative Widnall. So that you believe under the existing law, without any further implementation, the President has the power to negotiate and further implement the antidumping legislation?

Mr. McNeill. Assuredly, yes.

Representative Widnall. In view of what has been going on around the world, and keeping us more or less in a tinderbox, I would like to ask what may seem to be a simple question, and yet I think it is something that we all should know. Are there any tariff or nontariff barriers to the trade in arms between the United States and the other countries?

Mr. Greenwald. Perhaps I can try to answer that. As far as exports of arms from the United States are concerned, they are all controlled and licensed. The State Department has the responsibility for licensing arms and ammunition under an act of Congress. I don't think any arms—ones that are on this list—can be exported without specific licensing authority.

Representative Widnall. I understand the licensing part of it. But do foreign countries charge a tariff? Are any payments made to the foreign countries to enable us to sell arms to them?

Mr. Greenwald. As far as the tariffs are concerned, I think they actually have tariffs on what we call arms and ammunition. But in most cases they are imported from the account of the government, and therefore the tariffs are waived—the tariff doesn't apply—because the government is the sole importer of arms and ammunition.

Representative Widnall. It is sort of a frightening thing to think that for war purposes you have free trade, and yet for other commodities having to do with the growth of the country and the health of the country we have the tariff barriers. I don't think it makes any sense.

Mr. McQuade. Well, there are two observations. First is that when you talk of free trade you are generally talking of transactions in the private sector, and in one sense all trade in arms and ammunition has a government involved. In our case we would control the export, and the purchaser would be a government.

And the other thing is that there is another barrier which is in the form of the United Nations resolutions which have been implemented by countries with respect to, for example, Rhodesia and South Africa. There are some limitations. And it is really not on all four's with other products.

Mr. GREENWALD. I don't think you can really call it free trade when there is a complete licensing system, certainly on exports as far as we are concerned, and on imports in most countries. The fact that the tariff is rebated because the purchase is for the account of the government doesn't make it free trade in the usual sense. As Mr. McQuade says, it is not the same as a private transaction, and you can't call it free trade. The most effective nontariff barrier to trade is a quota or licensing system. And that is what you have in arms and ammunition.

Representative WIDNALL. I have been very much disturbed since receiving word recently that a great amount of the arms trade between our country and the countries in the Middle East have been financed through the Export-Import Bank. Now, this is more than just licensing, too. And if it is true—and I'm going to pin it down, and I intend to follow it up—I think it is something that the country can well look into to our present posture and our future position with respect to this kind of trade.

Mr. MCQUADE. I am sure the answer, Mr. Widnall, is that if we make a national decision to sell arms, that it is the sensible thing to do under the military assistance program, why then we will facilitate that sale with credit if that is appropriate.

Representative WIDNALL. We certainly find ourselves in a great box since this Middle East system blew up. And a lot of things have come to light with respect to our own participation and that of the Soviet Union. And I think we had better have everything fully on the record as to what we are doing with respect to this entire trade.

Representative REUSS. Will the gentleman yield?

Representative WIDNALL. I will yield.

Representative REUSS. I think the gentleman from New Jersey is performing a very useful service here. I was not aware of the use of the Export-Import Bank for this purpose. But it was certainly not the intent of Congress to set up a Sir Basil Zaharoff institution when it inaugurated the Export-Import Bank. And I hope the gentleman will pursue this. I pledge my help with it.

Representative WIDNALL. I thank the gentleman.

If Britain fails in its bid to enter the European Common Market, what alternative sources of action might be open to the United Kingdom, and what might be the United States attitude toward such possibilities?

Mr. GREENWALD. Let me try to answer the question.

If the United Kingdom doesn't succeed on this occasion in joining the European communities, there will certainly be a great deal of consideration given to what people describe as alternative arrangements. As a matter of fact, I think both in the United Kingdom and in other countries people have thought about this on past occasions, and something called contingency planning is going on all the time.

My own feeling is that perhaps too much attention is given to the institutional aspects of these alternative schemes. People talk, for example, about a North Atlantic Free Trade Association as a possible alternative. I think in economic terms an alternative, not just for the United Kingdom, but perhaps for all the industrialized countries of the world, would be to try to move toward the elimination of all tariff and other barriers to trade. This is the economic aspect of the United Kingdom effort to try to join the Common Market.

The economic objective can be dealt with rather simply. And I don't think it needs an elaborate institutional arrangement.

The real problem, I think, is probably on the political side rather than the trade or economic side. The problem for the United Kingdom, as Dean Acheson once put it, is to find a role. And as it sees itself now, its role is part of an integrated European community. In that sense it is very hard to think about any viable or sensible alternative in political terms. And I think that there is some risk that the people will mix up the two: institutional arrangements with essentially political overtones, and economic arrangements which could be just an agreement among all the industrialized countries of the free world to move toward the goal of free trade. We don't need any elaborate system. I think it has been demonstrated by the Stockholm Convention of the European Free Trade Association that you can move toward complete elimination of tariffs and other trade barriers without having either special political relationships or a very elaborate institutional structure.

This deals with the economic side of the problem of United Kingdom entry. The question of handling the political aspect is much more difficult and much more complicated. And I don't think there is any simple solution or simple alternative in that case.

Representative WIDNALL. Mr. McQuade, if Britain succeeds in entering the Common Market, what would you think the long-range impact will be on U.S. trade?

Mr. McQUADE. The important thing is that as overseas markets become stronger economically they generally become better markets for the United States. Now that we have the Kennedy Round behind us, and we seem to be moving in the direction of removing tariffs as a really big factor in the trade picture, I do not view Britain's accession to the Common Market as particularly troublesome. In fact, if it makes the Common Market a better and stronger economic entity, it will probably help our trade, especially if we keep the various nontariff barriers in control and hopefully move forward to lower them. I think that it would not be a troublesome thing for us.

Representative WIDNALL. Thank you, Mr. McQuade. My time is up.

Chairman BOGGS. Mr. Greenwald, did I understand you correctly when you said that no legislation was required until 1969? Or did you say that no programs would be recognized?

Mr. GREENWALD. I didn't say that no new legislation would be required until 1969. I think the legislative program we have in mind was outlined by Ambassador Roth earlier, which would be what is referred to as essentially housekeeping legislation—a simple extension of the trade agreements program for another 2 years.

Chairman BOGGS. He also said that he would recommend certain amendments to the adjustment provisions of the existing trade agreement program?

Mr. GREENWALD. Yes. There are other elements in the legislative program to be presented this year. One would be the adjustment assistance amendment that you spoke of.

Chairman BOGGS. Are you prepared to spell those amendments out?

Mr. GREENWALD. No, I am afraid that——

Chairman BOGGS. Is anybody?

Mr. McQuade?

Mr. MCQUADE. I don't think that we have hammered out in our own minds what would be the right thing to propose.

Chairman BOGGS. When do you plan to propose them? This is July.

Mr. MCQUADE. In the very near future.

Mr. MCNEILL. Mr. Chairman, if I may just add to that comment, the Trade Expansion Act test for eligibility for adjustment assistance has proven indeed to be a very difficult test, as I think you all know. You will recall that in passing the Canadian Automotive Products Act the Congress liberalized very considerably the test for eligibility. Pursuant to the Canadian Automotive Products legislation, the Tariff Commission and the administration have in most cases, where applications have been made, been able to certify under the looser and more liberal eligibility tests that workers indeed have been adversely impacted and affected by operation of this particular agreement that we have with Canada. The administration is very carefully examining both tests of eligibility; that is, those in the Trade Expansion Act and those in the Canadian Automotive Products Act, with a view to asking the Congress to liberalize the Trade Expansion Act test. We have not at this time made final determination as to whether we would want to move wholly in the direction of the Automotive Products Act, or go beyond this, or go almost up to it. But we will, I think, quite shortly, as Mr. McQuade indicated, be submitting to the Congress proposals for amending the Trade Expansion Act.

Chairman BOGGS. Have you ever had a case under either act?

Mr. MCQUADE. We have had quite a number of successful cases under the Automotive Products Act. All cases under the Trade Expansion Act have been turned down by the Tariff Commission.

Chairman BOGGS. What has happened? What has been the action?

Mr. MCQUADE. In the case of the employees under the Automotive Products arrangement we have granted quite a number of adjustment assistance programs. And I could get that number if you would like to have it.

Chairman BOGGS. Yes; and we will include it in the record. (See p. 100.)

Mr. MCQUADE. But under the Trade Expansion Act the Tariff Commission has never determined that the major test required by the statute has been met, which is that the tariff concessions must be the major cause of increase in imports and that the increased imports must be the major cause of the injury. We have never had a successful determination on that front.

Chairman BOGGS. Is it the general feeling that the test in the Automotive Agreement would be better than the existing arrangement?

Mr. MCNEILL. Yes; I think that is true, Mr. Chairman. It was the intention of the Congress in enacting the Trade Expansion Act to provide for adversely affected persons and firms a program of adjustment assistance. And this simply has not worked, whereas the Canadian Automotive Arrangement has.

Chairman BOGGS. Mr. Greenwald, on another subject, what implication, if any, does the conclusion of the Kennedy Round have for the question of the East-West trade?

Mr. GREENWALD. The results of the Kennedy Round were fairly limited in terms of East-West trade. Perhaps the major development was the adherence of Poland to the GATT. Poland negotiated for access in the course of the Kennedy Round and, therefore, there will be some impact in that sense.

As far as the United States is concerned, we already give "most favored nation" treatment to Poland and Yugoslavia, which are two of the Eastern European countries that are members of the GATT. Czechoslovakia is also in, but we have a special decision which permits us to discriminate against Czechoslovakia in accordance with our own legislation. Our law will continue unaffected by the results of the Kennedy Round.

The proposal that the President made for East-West trade legislation is one that would still be relevant and still important, even after the Kennedy Round. What he asked for, you may recall, is the authority to negotiate most-favored-nation treatment with individual Eastern European countries and the Soviet Union when it is found to be in the national interest. This is something that we would do, at least initially, on a bilaterial basis. And we still think that this is an important foreign policy tool that ought to be given to the President to allow him to carry out his policies with respect to Eastern Europe and the Soviet Union.

Chairman BOGGS. Again, in connection with the less-developed countries, the Kennedy Round gave no consideration at all to Latin America, is that correct?

Mr. GREENWALD. I wouldn't say that it gave no specific consideration. A number of the countries of Latin America participated in the negotiations. Argentina, for example, received some concessions from us and other countries on meat, which is an extremely important export product for Argentina. Other countries got concessions on items of interest to them. The Kennedy Round didn't have any specific provisions for any particular area of the world. It was a multilaterial negotiation.

Chairman BOGGS. Let me put it another way. The existing discrimination against the Latin American tropical products will continue, will it not?

Mr. GREENWALD. That is true. That is not an outcome of the Kennedy Round, but a continuing situation which we hoped we might be able to deal with in the Kennedy Round. We had authority that the Congress had given the President to eliminate duties on tropical products if other countries did the same. We weren't able to use that authority as we would have liked to use it, because particularly the EEC wasn't prepared to go further. The major discrimination against Latin America—that is, the duties on coffee and cocoa—continues. And we didn't get anywhere in trying to reduce that discrimination in the Kennedy Round. That again is one of the reasons why we were trying to pursue another route to put Latin America on the same footing as the other developing countries.

Chairman BOGGS. Suppose you spell out simply and categorically what you propose to do in this other round.

Mr. GREENWALD. What we are trying to work out is an arrangement whereby all the industrialized countries—for all practical purposes, this means the key countries in the OECD—woulld be willing to give either duty free treatment or reduced duty treatment to the products of the developing countries. This is the basic element. It would be a temporary extension of duty free or reduced duty treatment. And how the temporary feature would be made to operate would depend upon the particular approach. Some people, for example, have been talking about this as an "advance cut," the idea being that the industrialized countries among themselves would agree to reduce their duties, the MFN duties, over a certain period of time, and that they give lower duties immediately to the developing countries. This is the idea of an "advance cut," or a "head start" for the developing countries.

Chairman BOGGS. In our case, though, again referring specifically to Latin America, in most cases the countries produce one commodity, such as tin in Bolivia, or coffee in Chile, or beef in Argentina, or oil in Venezuela, or sugar in Peru, and coffee in several of these countries. There are no tariffs there to speak of on Latin American products coming to this country, are there?

Mr. GREENWALD. Not in the United States, no. But there are into Europe, and in some cases into the United Kingdom and some of the other industrialized countries. So what we have been suggesting is that the other industrialized countries either eliminates the duties on these products of interest to the Latin American countries, or they give them duty-free treatment on these products to put them on the same basis as their African suppliers who now receive duty-free treatment under the terms of the Yaounde convention.

Chairman BOGGS. What tools do we have to induce the countries to bring this about?

Mr. GREENWALD. I think probably the major bargaining tool, or weapon, if you want to call it that, would be this idea of a generalized system. If we say we are prepared to go along with a generalized system that will meet the concerns and problems of Latin America, then we have some leverage to bring the European countries along to eliminate or reduce discrimination against Latin America.

Chairman BOGGS. My time is up.

Mr. Reuss, do you have any further questions?

Representative REUSS. I have had a chance. Thank you.

Chairman BOGGS. You are entitled to more time if you would like it.

Representative WIDNALL. I have a couple of more questions.

I think we all recognize that the process of negotiating removal or the moderation of the nontariff barriers is very difficult. Do you believe that the procedure of negotiating rounds is appropriate to reduce nontariff barriers, or should some new negotiating procedures be developed?

Mr. MCQUADE. I don't think it is going to be as easy to have a large multilateral system working here. The problems oftentimes have only bilateral implications. And I don't think we would like to prejudge how it ought to be done. There are some items which might lend themselves to the multilateral treatment. For example, I think I noted in my statement that the problem of Government procurement is something analogous to the antidumping arrangement about which Mr. McNeill spoke of, something where all of us could benefit from more forthright, openly stated general rules. That would be helpful for the world market in general. Maybe something like that would lend itself to the multilateral system. But many of these things are so special that they really have to be fought out on a bilateral basis, perhaps, before we try to make them more generally applicable.

Representative WIDNALL. Do you really believe that the system using the Kennedy Round wouldn't apply here in order to be effective?

Mr. McQUADE. We will have to see.

Representative WIDNALL. Do you see any danger that as a result of the tariff reductions achieved under the Kennedy Round new instruments of protection will be developed, or that more extensive use may be made of the old instruments?

Mr. McQUADE. Would you say that again?

Representative WIDNALL. Do you see that as a result of the tariff reduction due to the Kennedy Round, that new instruments of protection will develop, or that more extensive use will be made of old instruments?

Mr. McQUADE. It seems to me that all these things have large political overtones, and we are never going to totally remove the kinds of actions which will have some protective benefit for a particular segment of the community which, after all, is a political entity. The object of the game is to try and minimize these in a way which each country can see is consistent with its national interest. And while I think the Kennedy Round technique may be something which will be useful in some selected items of nontariff barriers, I think that there will be some effort inevitably of pressure groups in every country, including our own, to use nontariff barriers more, if that is the necessary tool to gain some protection.

Chairman BOGGS. I wonder if the gentleman would yield?

Representative WIDNALL. I yield.

Chairman BOGGS. In that connection, what authority do you have now to negotiate on these? And if you lack sufficient authority, is it the intention of the President to recommend such a grant in any new legislation?

Mr. McQUADE. This is, of course, the main objective of Mr. Roth's assignment from the President, to try and find what new authorities and what new policies we ought to seek. And I would not be surprised if there were such an effort.

Mr. McNeill, do you want to comment on that?

Mr. McNEILL. I think that with respect to the second part of your question, that is absolutely the correct answer, Mr. Chairman, that this is something that will be considered in the major study under the leadership of Ambassador Roth.

On the first part of your question, the nontariff barriers that are maintained in the United States tend to be in many areas in the form of national legislation, such as the Antidumping Act, the Buy American Act, and others. And in these areas the President, of course, does not have the authority in the Trade Expansion Act or elsewhere to negotiate away an act of Congress. Where he does have negotiating flexibility is in respect of the administration, perhaps, or some of these acts. For example, in the Buy American Act the Congress, in 1933, said that there shall be special preference for domestic suppliers in Government procurement programs, but did not designate what that special preference should be. The President, in 1954, through Executive order, laid down some very specific price preferences. And it would be in that kind of an area of administration and presidential flexibility where the area of negotiation now lies. And this was the case in antidumping.

Mr. GREENWALD. I wonder if I could come back to Mr. Widnall's question. I think most people feel that the effect of the Kennedy Round; that is, the relationship between the Kennedy Round and nontariff barriers, is that as the tariff barriers are reduced two things happen. One, as the nature of the nontariff barrier becomes clear and as tariffs fall it is evident that they have a greater impact than tariff barriers. Tariff barriers are not that significant so the people who want a higher degree of protection not only in the United States but in other countries will look to nontariff barriers. Second, I think the comments of both Mr. McQuade and Mr. McNeill have made it clear that you can't talk about nontariff barriers as a general category as you can about tariff barriers. Negotiations to deal with tariffs are possible because they are fairly easily identifiable, and represent a common technique of protection that all countries have pursued for years. But when you come to nontariff barriers, as Mr. McNeill pointed out, you get involved in purely national legislation, tax systems, fiscal systems, and it gets extremely complicated. They are related to national economic policies that aren't adopted purely in terms of international trade and are extremely difficult to deal with. Therefore, it would be hard to have a negotiation that tried to cover all nontariff barriers.

What we have been trying to do is deal with nontariff barriers as appropriate, and sometimes in different forums. For example, we have tried to tackle the border tax issue in the OECD through its relationship to economic policy in something called the "adjustment process"—trying to convince countries in good balance-of-payments situations—surplus earners—that they shouldn't take action on taxes which is contrary to the policy that a good creditor nation should follow. There is also the issue of government procurement which is a problem mainly of the industrialized countries. We have pursued it in the OECD in the terms that Mr. McNeill suggested—trying to arrive at a uniform system of government procurement practices. The real problem, it turns out, is that we have a law, we have open competitive bidding, but other countries in the world use much more subtle methods to achieve "buy national" purposes.

So our first effort there has been to get agreement on the publication of bids and publication of the results of the bids and the system of competitive bidding. And this is what we have to try to deal with rather than going immediately to the question of what is the percentage of preference, because some of them have come to us very blandly and said, we don't have anything like a Buy American Act. We found, though, that the results are actually the same achieved through a much more subtle, devious method. So each nontariff barrier has to be looked at individually, not only the methods of negotiation, but the forum in many cases may be different, depending on the kind of nontariff barriers it is and how we can best tackle it. Nontariff barriers are an important problem, and they will be more important as time goes on.

Representative WIDNALL. I just have one more question. How long a period of time do you think it will take before we can obtain a fair evaluation of what has been accomplished by the Kennedy Round?

Mr. GREENWALD. I am not sure what it means to get a fair evaluation and I don't know whether time will necessarily help. I think opinions differ on the results of the negotiation. You have heard Ambassador Roth's evaluation of it, and the administration generally. I don't want to denigrate or undermine the objectives of tariff reduction. But I think a number of economists who have been working in this field recognize that there are factors other than Government decisions on tariffs or other trade barriers which will affect the flow of trade. It is awfully hard to predict exactly what has been caused or not caused by particular reduction of a particular tariff, or a whole series of tariff reductions in a negotiation. Just as the weather perhaps has more to do with the crop results than an agricultural policy of the Government, so the general level of economic activity which is related to tax policy, fiscal policy, deficit financing, may well affect the results in trade flow terms more than what actually happened to the tariffs.

Representative WIDNALL. Thank you.

Chairman BOGGS. Thank you very much.

Mr. McQuade?

Mr. McQUADE. Just to give you a roundhouse feeling on this autotive parts arrangement, I might mention that as of December 31, 1966, 1,141 workers had filed for assistance, and 819 had been found eligible. And they paid out something less than $900,000. But there have been several cases since then, including the American Motors case.

Chairman BOGGS. Thank you very much. Thank you Mr. McNeill, Mr. Greenwald. You have been very helpful to the subcommittee.

Now, Congressman Curtis, we will hear from you.

We are very happy to have our colleague, one of the distinguished members of this committee, and distinguished member of the House Ways and Means Committee here this morning, Congress Curtis of Missouri. Congressman Curtis was one of the two Congressmen appointed by the Speaker to represent the House Ways and Means Committee at the Kennedy Round, the other being Congressman Cecil R. King of California. And he was very diligent in attending the sessions there. Mr. Curtis has been kind enough to come and make a statement before the subcommittee this morning.

Before he begins, we will accept Representative King's statement for the record and include it herein.

STATEMENT OF HON. CECIL R. KING, A U.S. REPRESENTATIVE FROM THE STATE OF CALIFORNIA AND DELEGATE TO THE KENNEDY ROUND

Mr. KING. Mr. Chairman, you have invited me as a congressional delegate to the Kennedy Round to appear before the Subcommittee on Foreign Economic Policy currently conducting hearings on a reassessment of U.S. foreign trade policy.

The Kennedy Round agreements are exceedingly complex, as might be the expected result of more than 3 years of negotiations involving more than 50 countries, countries that account for three-quarters of the world's trade. The final agreements were not signed until a little over a week ago. It is not surprising, therefore, that we in the Congress have been given only preliminary information on the outcome of the negotiation.

We await the report to the Congress required by the Trade Expansion Act for definitive analysis of the Kennedy Round result. Until we see this report, our assessments must be tentative.

I am, nevertheless, willing to express confidence that our negotiators have brought home a Kennedy Round settlement that will largely fulfill the expectations and intentions of the 87th Congress which wrote into law the historic Trade Expansion Act of 1962. Basing my views on observations made as a congressional delegate, I believe that our people in Geneva have used their negotiating authority wisely and well. The act enjoined them, to quote from the statement of purposes, "* * * through trade agreements affording mutual trade benefits (1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of U.S. agriculture, industry, mining, and commerce." I can attest that they were persistent and diligent in pursuit of this objective.

I shall reserve comment on details of the agreements until I have had the chance to study these agreements carefully and to consider the analysis which is under preparation.

I would like to remark, however, on two matters that are creating considerable controversy.

The Kennedy Round has resulted in the negotiation of an international antidumping code. Without entering into the merits of the provisions of this code, I am inclined to support our negotiators' contention that they have entered into an agreement that does not violate the letter or the essential spirit of our U.S. antidumping law. I know that they made a very great and sincere effort to achieve this end, which included extended domestic consultation and public hearings.

Secondly, an agreement was reached that commits the administration to seek legislation to convert the American selling price (ASP) system of customs evaluation to the normal evaluation system as it applies to certain chemicals. Again, I don't intend to discuss the merits of such legislation at this time, but I do want to say that prior to entering into negotiation on ASP, a maximum effort was made to seek public advice, to assure that the views of the industry affected were heard and considered, and to establish that a change in the system was justified.

Both in regard to dumping and ASP, the administration has recognized its obligation to seek and fully consider public and congressional opinion. In fact, to a far greater extent than in the past, the development of U.S. positions throughout the Kennedy Round has involved extensive consultations not only within the administration, but also with representatives of the public and with Members of Congress. The Trade Expansion Act established, for the first time, the Special Representative for Trade Negotiations, directly responsible to the President for the conduct of such negotiations. The act stated in section 241(a) that the Special Representative should "* * * seek information and advice with respect to each negotiation from representatives of industry, agriculture, and labor, and from such agencies as he deems appropriate."

The act further obliged the President to seek Tariff Commission advice (sec. 221), advice from the Departments of Agriculture, Commerce, Defense, Interior, Labor, State, and Treasury (sec. 222), and public views through hearings (sec. 223).

A hierarchy of interagency committees, including one at the Cabinet level, was established for the purposes of formulating policy recommendations, with the Special Representative and members of his staff presiding over their work. Similarly constituted was the Trade Information Committee, which held public hearings on concessions that might be made or sought by the United States. These supplemented the hearings which were held by the Tariff Commission.

The President appointed a 45-member public advisory committee to the Special Representative, made up of spokesmen for the public interest selected for their leadership in the business, labor, farm, and consumer sectors. This group met regularly with the Special Representative and many of its members traveled to Geneva for a firsthand look at the negotiations.

Members of Congress have also been brought in as an integral part of the policy formation process in the role of congressional delegates. The creation of congressional delegates was an important innovation of the Trade Expansion Act, which, in section 243, states:

> Before each negotiation under this title, the President shall, upon the recommendation of the Speaker of the House of Representatives, select two members (not of the same political party) of the Committee on Ways and Means, and shall, upon the recommendation of the President of the Senate, select two members (not of the same political party) of the Committee on Finance, who shall be accredited as members of the United States delegation to such negotiation.

Two Members of the House and two delegates and two alternates from the Senate were so accredited from the beginning of the Kennedy Round.

Throughout the negotiations, and increasingly as the bargaining reached the critical stage, we were kept current with developments and were consulted on moves to be made. We held regular meetings with the Special Representative, received written reports from him, and, on several occasions, made individual trips to Geneva. There we sat in delegation meetings and negotiating sessions and were given access to the position papers and cable messages concerning negotiations.

As the U.S. position evolved on the handling of such difficult questions as American selling price, an international antidumping code, inclusive of agriculture and nontariff barriers, the views of the congressional delegates were sought, given, and, in my view, very carefully considered.

Ambassador Roth has, on several occasions, testified before congressional committees on the usefulness to him of the delegates to the Kennedy Round. He has had an opportunity to probe congressional views and sensitivities and to take advantage of prior consultation on matters that might require, or result, in congressional action. He has been able, based on the consultations, to make clear to other participants in the negotiation the realities of U.S. politics.

With the Kennedy Round concluded, we, the congressional delegates, would appear to have finished our assignment. I believe very strongly that the concept of congressional delegates to trade negotiations should not be allowed to expire with our retirement. As new negotiations are begun, Members of the Congress should be named as delegates. Through this means, the Congress can both advise and be kept informed on the conduct of our trade relations. The two-way usefulness of the congressional delegates has been proved in the Kennedy Round.

Mr. Chairman, I have tried to focus my remarks on a particular aspect of our conduct of trade negotiations, that of the utilization of means of clarifying the public interest through the participation of representatives of the public and of the Congress in the policy development process. I would recommend that this aspect be given full consideration in the deliberations of this distinguished subcommittee.

Chairman BOGGS. Congressman Curtis, we are very happy to have you here this morning. You may begin.

STATEMENT OF HON. THOMAS B. CURTIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI AND A DELEGATE TO THE KENNEDY ROUND

Representative CURTIS. Thank you, Mr. Chairman.

Mr. Chairman and members of the Subcommittee on Foreign Economic Policy, I first want to thank you for your invitation to me as a congressional delegate for trade negotiations to testify during these important hearings on trade policy. I also want to thank the chairman for his invitation to me to sit on the subcommittee panel during these hearings, in light of the fact that, though I am a member of the full Joint Economic Committee, I am not formally a member of this subcommittee.

I would also like to express my great enthusiasm that these hearings on foreign trade are now being held. They have been badly needed, and will serve a very useful and very important purpose: to give perspective to the negotiations just past and to give focus to the many new ideas about trade policy now current. I hope such hearings by this subcommittee, or by the full Joint Committee, can be held regularly—ideally, I would hope they could be held at least annually and that the base of this annual congressional trade inquiry could be the President's Annual Trade Report, a requirement of section 226 of the Trade Expansion Act.

If the Joint Economic Committee would hold hearings annually on this document as they do on the President's Annual Economic Report, I think we could move forward greatly in our understanding of these very complicated matters involving international economics and trade.

At the outset I would like to establish what I consider to be the context in which our trade negotiating efforts have taken place since the 1930's. The Tariff Act of 1930—the "Smoot-Hawley" Tariff enacted the highest rates the Nation had had—higher even than the exceptional rate in the 1922 Fordney-McCumber Tariff. Starting from this high level of rates, reciprocal trade negotiations beginning in 1934 and proceeding until the Kennedy Round have in effect amended the 1930 tariff schedules.

Thus we have descended, step by step, from the rates fixed by the 1930 act—rates that still appear in column 2 of our tariff schedules—to levels where the tariff per se has ceased to be really meaningful restriction to flows of international trade in the industrialized free world.

With the successful conclusion of the Kennedy Round we have come, then, to the end of an era, and we stand at the threshold of a new effort. Now, if only because of the relative unimportance of tariffs, many new trade problems spring to our attention, demanding study and action. I will discuss some of these problems and what to do about them later. I wish to note here however that I detect a new trend of thought, one that I feel contradicts the thrust of U.S. foreign economic policy evident in the progressive reduction of tariffs.

The purpose of this tariff reduction has been to establish a more competitive international economy based on the fuller operation of a fair marketplace. But this objective is endangered by developments such as measures that use quotas and licenses as means of regulating trade in order to bring about objectives that governments consider to be important. Commodity agreements, for example, are major deviations from marketplace conditions because they use quotas and licenses to completely regulate trade in a certain product, often of major importance. The Long Term Cotton Textile Arrangement, renewed for 3 years by the same Kennedy Round agreement that will result in the reduction of tariffs, is just such a measure. It establishes a comprehensive quota system for cotton textile imports, and this has had a profound effect on economic development in the poorer countries.

So I see two themes, two ideas of foreign trade, now current. On the one hand, there are those who wish to expand international trade and payments on the basis of freely operating, competitive international marketplace. The reduction of tariffs has brought us toward this objective. On the other hand, there are those who, though they may even support tariff reduction, at the same time seek to establish new methods of trade regulation that will impair the function of the marketplace. I believe that it is important to resist such "neomercantilist" efforts and to adhere in the new period that lies ahead, to the principles of international competition that have guided our policy in the tariff-reduction period.

Beyond these comments I will limit my remarks to observations about the role of Congressional Delegate for Trade Negotiations, some post-Kennedy Round concerns of international trade policy and some comments on our administrative organization for formulating foreign trade policy, conducting trade negotiations and in other ways implementing that policy.

The function of congressional delegate is set out in section 243 of the Trade Expansion Act as follows:

CONGRESSIONAL DELEGATES FOR TRADE NEGOTIATIONS. Before each negotiation under this title, the President shall, upon the recommendation of the Speaker of the House of Representatives, select two members (not of the same political party) of the Committee on Ways and Means, and shall, upon the recommendation of the President of the Senate, select two members (not of the same political party) of the Committee on Finance, who shall be accredited as members of the United States delegation to such negotiation."

I should note that, in addition to the two full Senate delegates, two alternate delegates have been designated from the Senate Finance Committee as a measure of the interest of that committee in the trade negotiations. These alternate members, one from each party, have served as full congressional delegates.

The language of section 243 obviously leaves the congressional delegates' role open to interpretation, but it is nonetheless important. For the first time, congressional participation in trade negotiations was elevated from the level of "observer" status to that of actual participant. This is an important distinction, one that I am keenly aware of, having also served as a congressional "observer" of past negotiations. As "observers" access to documents and meetings was limited. As "delegates" we have access to classified data and to negotiations between governments.

The resulting relationship between executive and legislative branches has been described as "unique." Initially it may have created a bit of disquiet in administrators accustomed to the usual cards-against-vest approach to dealing with Congress. But my opinion is that the "unique" relationship has worked well: I have found that efforts to expand and intensify congressional knowledge and participation in the foreign trade program have been met with good cooperation by the executive branch.

My interpretation of the language of section 243 and the role of congressional delegate for trade negotiations has been to keep well informed about the negotiations and trade matters generally, to consult with the trade negotiating staff, and to attempt to explain to the public and its representatives in Government—my colleagues here in Congress—the issues in the trade negotiations, with attention at the same time to their meaning to our domestic industries, our relations with other nations, and our future trade concerns.

Moreover, I have hoped to promote what I consider to be another profoundly important objective. I believe the Congress is an institution intended to make decisions through processes of open study and debate. I have hoped that publicly exposing as completely as I could the facts about the negotiations would aid better congressional decisionmaking in foreign trade and related matters. This has been a principal reason why I have used the consultations and participation open to me as a congressional delegate to report extensively on the negotiations and related problems to the Congress.

In May 1963 at a meeting in Geneva the Ministers of the major countries participating in the Kennedy Round resolved upon certain resolutions to guide the "Kennedy" negotiations. A year later, in May 1964, I attended the formal opening of the Kennedy Round, at which time the Ministers published new resolutions essentially reaffirming those of a year earlier.

But by May 1965, my second visit to the negotiations, very little had been accomplished in fulfilling the earlier ministerial resolutions. So on June 2, 1965, Congressional Record pages 11925–11930, I explained the arguments surrounding the negotiating ground rules that had absorbed everyone's energies during this 2-year period.

Our negotiators had spent months simply trying to define the meaning of a "tariff disparity," and the idea of establishing world reference prices for all agriculture commodities based upon fixed levels of farm support—a Common Market proposal known as the "montant de sourien." These intellectual exercises had delayed any real tariff bargaining very effectively.

As an indication of the recency of the progress of the round, I would recall that, even as late as June 2, 1965, the antidumping agreement that was signed on June 30 had not even been discussed. The group—the Non-Tariff Barriers Committee of the General Agreement on Tariffs and Trade—that was to be the forum for organizing the negotiations on nontariff barriers, had not even met, and its membership had not even been organized.

But very shortly thereafter, I believe the middle of June, the British Government submitted its paper deeply criticizing what it then considered the shortcomings of the U.S. administration of the Antidumping Act of 1921, an opinion shared by many other countries.

It is rather a surprise that, 2 years later, we have mollified our foreign critics first just by explaining the logic behind our antidumping administration, and second, making apparently minor changes in our administrative practices. Above all, we have succeeded in having the essence of much of our own procedure—open hearings with rebuttal, public explanations of antidumping actions, and the criteria for such actions, among other safeguards—adopted by all the major trading nations under article 6 of the new antidumping agreement.

It has seemed to me that such an international agreement harmonizing national practices is a very promising achievement, an important first step toward much broader agreement on other international business practices. For the record, I would like to cite my previous comments in the Congressional Record on the problem of dumping: June 1, 1965, pages 11645–11647; March 8, 1966, pages 5112–5116; August 24, 1966, pages 19554–19557.

The year from May 1965 to May 1966 will be remembered as perhaps the period of most frustration in a very frustrating 5-year negotiation. The long stalemate in the functioning of the Common Market from June 1965 through February 1966 prevented its participation in the negotiations—the negotiations could not proced.

But by the spring of 1966, the negotiations had begun again. After my early May 1966 trip to Geneva, I was able to report on May 31, Congressional Record pages 11280–11293, about the opening of discussions in two critical industrial sectors, steel and chemicals, and the resumption of discussions on wheat and feed grains, among other matters. Later in the summer, the Community tabled additional agricultural offers and so, by the fall, real negotiations were at last well underway.

Time does not permit me to chronicle minutely the step-by-step development of the negotiations, and that is not my purpose here. Suffice it to say that by the time of my return to the Geneva negotiations in late November 1966, the major issues had been clearly delineated, initial assessments of the dollar value of the offers had been drawn up and these were being presented to other participating countries with lists of requests for additional offers and lists of possible withdrawals.

Key issues remained, however, and their solution, as we know, was a touch-and-go proposition until the very final weeks of the negotiations. These key issues—mainly steel, chemicals, American selling price, a grains agreement, dairy and meat sector problems, and other temporate zone products—were the matters of greatest concern. But equally important, if somewhat in the background, were the trade and development problems of the poorer countries.

To explore these issues, I began on April 10, this year, a five part series of reports titled "The Kennedy Round and the Future of United States Trade Policy." The April 10 installment, part I, Congressional Record pages H3819–H3830, dealt with the tactical negotiating problem in agriculture, but mostly with the efforts, and the issues, in the negotiation of an international grains agreement.

On April 13, Congressional Record pages H4128–H4140, I submitted part II, which dealt with dairy, meat, poultry, and other major farm products.

In reviewing the content of these two speeches and the results of the negotiations it is obvious that the Kennedy Round agriculture negotiations did not alter at all the Common Market's farm pricing and import restriction systems, which we had hoped we could modify. Of course, many believed that this was not possible, even from the start of the negotiations. But I think we made a very good try—a beginning in treating in an international forum difficult problems of agriculture. This itself was an important initiative, because previous negotiations had not attempted discussion in the agriculture area.

These inquiries into international farm trade demonstrated an important lesson. The failings, the complications of international farm trade, begin at home. Almost all governments have stepped into their own agricultural marketplaces to achieve through government direction social and political objectives they consider important. Establishing real competition in international agriculture markets largely requires that governments first step out of these markets, remaining there only to perform the essential function of guaranteeing their honesty and enforcing other standards of fair competition. So complex is this problem that I am reminded of a statement by the very able, astute Director General of the General Agreement on Tariffs and Trade, Eric Wyndham-White, at a press conference in Washington in April 1965. He said that—

> The evolution of an acceptable viable international agricultural and food policy is something which will have to be worked out very patiently over the years. We mustn't expect that one can solve all these very deep-seated problems in one go-around—in a single negotiation.

Part III of the report, which appeared on May 1, Congressional Record pages H4891–H4905, was an effort to explain the tactical problems in the industrial negotiations, particularly the development of the sector approach to negotiations in difficult industries—steel, chemicals, textiles, aluminum, and pulp and paper. Part III also discussed the so-called technology gap which was used by certain countries as a reason for excepting certain tariffs from cuts in the negotiation. In part III I also described the problems facing the conclusion of a meaningful negotiation in the steel sector talks and, in relation to this, I explored some of the problems in our own steel industry, in an effort to bring them out into the open and examine their merits at a key time in the negotiations, the last moment when, if some special measures were required, they would have to be taken.

My descriptions of the problems in the other major industrial sectors—chemicals, textiles, aluminum, and pulp and paper—begin on Monday, July 10, Congressional Record pages H8380–H8394, wi. .. a discussion of chemicals. The second section of part IV will be submitted next Monday, July 17, and it will conclude the discussion of the industrial sector negotiations. I would conclude that these sector negotiations, an innovation in the Kennedy Round, resulted in more intensive study of the international and domestic economics of these industries than any previous negotiation. This has been a major positive result of the Kennedy Round approach to the industry sectors.

Study of these sectors of international trade negotiations, and the domestic economics of the U.S. industries in question, has led me to emphasize the importance of change—that is, shifting inputs of resources among and within industry groups as a result of new technology, new demands, and new sources of supply. These continuing changes are the expression of a truly dynamic economy. A tendency I see is that, in examining intensively an industry, some of us become wedded to a static view of the industry in question, forgetting that change is incessant and that some very profound economic changes can take place very rapidly.

This is an attitude sometimes adopted also by businessmen themselves. Used to looking at their role in the economy in terms of a certain share of production or sales or other measure of size, they are proud to see an increase and very reluctant to accept a decreased share, even though the larger forces of economic activity and innovation may demand constant changes in the relative importance of various industries. And I must add that the actual amount of that industry has increased, the proportionate share may decrease, but the industry still is expanding.

So we are continually faced with the question whether to maximize economic growth, thereby increasing the totality of economic activity, or accept some lesser amount of activity in order to preserve certain dominant or less dominant interrelationships among major industrial groups.

Implied in this observation is that certain industries may in a sense be "doomed" to suffer declines. This is not necessarily the case, as we know. By flexibly responding to new challenges in the marketplace, perhaps by diversifying into related but more growth-oriented lines of production, perhaps even by selective foreign investments, so-called "older" industries may rejuvenate themselves. And all of this activity should take place in terms of fair competition, both domestic and international, in a situation where the competitive rules of the road, the "conditions of the market and the exchange" must become internationally understood.

My researches into the textile industry have given me some insights into this dynamic economic process. These were published in the Congressional Record of August 29, 1966, pages 20077–20113. A new report on textiles will update much of the data that I then related.

I found that what seemed to be a genuine economic depression in the cotton textile manufacturing industry in the late 1950's and early 1960's was diagnosed as a problem of import competition, when the essential problems were those of industry modernization and of artificially expensive raw cotton supplies under the so-called "two-price" cotton subsidy system.

It is well known that for cotton textiles a continuing program of comprehensive quotas, which are by definition the most restrictive form of measuring the international economic differentials a society considers it important to measure, was begun. Though the quotas were initially applied to Japan and Hong Kong, Spain and Portugal, the countries that are now most affected are the poorer developing countries, many of them striving for industrial development, in which textile manufacture is conceded to be a natural beginning step.

Since 1960 the cotton textile industry, according to a wide variety of economic indicators, has shown tremendous improvement. It has ironed out some of its basic structural problems, it has modernized and expanded extensively, it employs more workers, produces more goods at lower unit costs, and makes higher ratios of profits on invested capital. The quotas remain, however, as an obstacle to the reestablishment of the marketplace. The industry is understandably reluctant to give up the quotas—they in fact want stricter quotas and want them extended to the wool and manmade fiber sectors of the industry, seemingly unable psychologically to adjust to new conditions.

To me the textile quota program is of deep concern because of its effects on the poorer countries. It raises this profound problem: how can we effectively create the conditions for worldwide economic growth and prosperity?

The financial foreign aid programs carried on by the United States and other countries since the early 1950's have been less than successful, barely, if at all, bringing about increases in per capita income. Foreign trade; that is, the ability to sell goods in foreign markets to earn income, is a more fundamental, more correct method of generating income and growth, and would remove much of the need for financial aid.

Restrictions on exports of such things as cotton textiles both discourage the natural process of industrial development and create a continuing dependence on unearned financial aid—with all its psychological impact, including irresponsible expenditure of such unearned money.

So our businessmen and our labor unions, and our investors and Government officials must face this question: Will we allow the developing countries to sell us what they make, or will we continue to support them by means that I and many others consider to be wasteful and even harmful? Will we really accept the meaning of the slogan, "Trade, not aid"? Do we really mean it? And if we do, of course, then, we have to give thought to what is it economically feasible for these countries to produce.

I regard foreign aid—and I am in favor of the basic program, if it is designed to help nations get on their economic feet. But just as in welfare programs domestically, if it doesn't get people on their economic feet, it can result in creating a condition of permanent welfare or permanent aid.

Because I have used textiles as an example does not at all mean that this argument applies only, or even exclusively, to textiles. It might not even apply to textiles, though I think it does. It is a consideration for all goods and service industries.

Another consideration that has broader application is the question of foreign investment. The case has been very strongly made that textiles, like other industries, should defend their home markets by establishing their own foreign factories, thus participating in growing markets outside the United States. There are fewer and fewer large American industries that have not entered international markets through direct investment abroad, largely to sell in the foreign market rather than simply supply the U.S. market. One of these exceptions appears to be steel. Such industries should consider how they can take advantage of the global opportunities for their products, their know-how, their unexcelled merchandising and distributive ability, and their efficient management. If they were to do so in poorer countries, they would also make fundamental contributions to sound economic growth.

These are some of the observations derived from the examination of the industrial sectors in the trade negotiations. They may seem far afield from the topic of negotiations, but they serve again to illustrate that tariff negotiations as they have been conducted in the Kennedy Round have been exceptionally fruitful in terms of deepening our understanding of the industries that are the subjects of the negotiations.

Part V of my five-part report is still to come. It will deal with other-than-tariff trade problems, especially dumping, international patents, and other matters, many of which will absorb our attentions in future international trade efforts.

I have been told that I have become knowledgeable in events that are past, the implication of course being that the knowledge is now useless. I reject this theory. Nowhere is the aphorism "Past is Prologue" more applicable than the just-completed Kennedy negotiations on tariff and trade. The many lessons learned from the wealth of detail of this negotiation will instruct, enlighten, and shape future action. They are the basis for a beginning of a new, more fruitful kind. Coming through years of negotiations concentrated on tariffs is like passing through a high mountain range and emerging to find some remaining foothills to traverse, and to see, a little distance beyond, a lush plain. The plain is lush, but hazy—its outlines dim. We are in the unique position of being able now as we look down over it to shape the economic conditions that will be in force there. The question is, what courses of action should we take?

The Kennedy Round itself holds the seeds of the answer. It made innovations in areas like agriculture, nontariff barriers, and problems of the developing countries that were very meaningful and basic.

In the area of agriculture, I have already identified above what I consider to be the main problem: Government interference. Here, one course of action would seem to be establish more effective international consultative institutions to deal with domestic policies as they affect international trade and impinge on the domestic agriculture policies of other countries.

In the area of nontariff barriers, much work study has to be done. I will simply mention some of the more obvious matters that are considered to be problems: border taxes and export rebates, Government buying regulations, valuation and tariff nomenclature problems. These are matters that can affect exports. There are other Government programs that can affect imports into this country as well as our exports to third markets, such as grants and subsidies, especially to stimulate exports.

There is another group of trade problems of the other-than-tariff type that must also be subject to concentrated attention. I have in mind the area known as restrictive business practices, or problems of unfair trade practices, such as combinations in restraint of trade, which essentially have to do with creating fair marketplace conditions.

In addition, there are areas such as international patents and copyright protection, where national practices should be harmonized and internationally codified in order to equalize and stabilize these basic business laws.

There is another area, where the costs of doing business may be severely affected by various governmental programs, that should be given consideration in future trade negotiations. Wage differentials in context with productivity should be treated as an element affecting trade negotiations because they may reflect an unfair competitive burden on U.S. producers.

Finally, there is the very complex problem of our trade and aid policies toward the economically disadvantaged, developing countries. In our attempt to find the proper solutions to these problems I believe that the basis of consideration should be to permit such countries to manufacure and to sell to us those products that they are able to produce efficiently, such as the processing of raw materials to more finished stages. The tariff structures of industrialized countries often contain built-in differentials that permit the free importation of raw materials but tax, by means of a higher tariff rate, the same materials in processed form. These tariff differentials can therefore adversely affect economic development.

Incidentally, these apply to most developed countries. The United States has got some of these, and other countries do the same.

Removing discriminations against the exports, and the industrial development and diversification of the developing countries, should be our first concern. Only then should we take the step toward other special measures on behalf of the developing countries. We are all aware of the proposals that have been made to establish tariff preferences for the developing countries. The political case for preferences on the part of the developed for the developing countries has been argued effectively. But the economic case is much less clear. Is it logical to adopt, for political purposes, an economic program that will not have the expected economic consequences in terms of real benefits for developing countries' exports?

I urge that the United States and other industrialized countries give very careful scrutiny to the economic case for tariff preferences and other special trade measures for the developing countries. It would seem to me that the first steps in helping such countries has only been taken partially.

One such area is commodities. Commodity agreements for cocoa and coffee and other basis materials, cocoa, sugar, copper, are merely devices to organize international markets along mercantilist lines. I believe that the stabilization of prices is important, both for buyers and sellers. But I also believe that the market has created a mechanism for bringing about price stability for internationally traded commodities. And we need to develop those. Futures markets are such a mechanism. They focus the wealth of knowledge of the producer, trader, and merchandiser to create an educated market where, if well regulated in the same sense that our stock markets are regulated, price movements take place in an orderly stabilizing environment.

Just as many of our domestic commodity markets perform these essential price functions well, so international futures markets can be created to perform the same functions. Futures trading may not now exist in all types of coffee, but I believe that, with less effort than is now expended in the administration of the International Coffee Agreement, a smoothly functioning international futures market could be created for coffee. I have long hoped that an appropriate committee, but particularly the Joint Economic Committee, would intensively study one of these commodities, sugar or coffee or any single one, in order to have an economic case study upon which to base our commodity policy. And this study is basically needed. All these questions and more are in need of concerted action. Our next problem is to decide what to do about them. The President has asked the Special Representative for Trade Negotiations, Ambassador William Roth, to conduct a full-scale study of these problems. As Ambassador Roth explained yesterday, this study will take place by means of interagency task forces, and it will be headed by a new Public Advisory Committee. This Public Advisory Committee and the format of the study should be modeled as much as possible along the lines of the Hoover Commission—that is, there should be congressional participation in all its aspects.

Of course it would not provide one feature of the coffee agreement, which is a hidden subsidy to coffee producers accomplished by means of maintaining artificially high coffee prices. A futures market would provide desirable price stability but not subsidy—it would therefore not artificially encourage continued coffee production and continued surplus, but provide a market stimulus for producers to lessen production and, hopefully, to diversify into other products. I have commented further on international futures markets in the Congressional Record of July 11, 1966, pages 14373–14874.

The pause for study, while needed to formulate effective policies and effective means of carrying them out, must not be allowed to dull our Government's responses to the trade problems that will continue to confront us. In my July 10 report concentrating on chemicals I also discussed the problem of the border tax. Here is an area where I believe that, because of the rapid development in Europe of a harmonized turnover tax system and increased border taxes, there is a need for international consultation at least to define the issues behind the dispute about the alleged adverse effects on U.S. exports of the border tax and export rebate that are part of the turnover method of indirect taxation.

Let me emphasize one of the great things I thought we created in the Reciprocal Trade Act of 1962, this prominent mechanism in our society, the Office of Trade Negotiator of which Ambassador Roth is the head. This is permanent structure.

While discussing the trade policy studies to be undertaken by the administration, I would suggest that there is an alternative that should perhaps be considered. Would not the most effective method of studying our foreign trade policy in its proper context be a much broader Foreign Economic Policy Commission, which has adequate financial backing to hire an independent staff and secure outside studies from external sources, hold hearings in various parts of the United States and abroad, and publish its own studies? My concern is that we attempt to create a policy that is farsighted as well as oriented to problem solving in the near term.

There is another kind of study that should be undertaken either within or outside the Government. There has never been an effort to find out what the economic effects of tariff reductions really are. Five rounds of tariff negotiations have been undertaken since World War II without any thorough attempt to document their effects on world trade. The sixth and most far-reaching, tariff negotiation has just concluded, and it has been accomplished with the best statistical resources and equipment that have ever been employed. This wealth of statistical data should be used to study the economic effects of the tariff cuts just completed. This would necessarily be a long-term effort because the tariff cuts are staged over 5 years. But it should, at some stage, be undertaken.

One of the great achievements of the 1962 Trade Act was to establish the organization needed to conduct trade negotiations, the Special Representative for Trade Negotiations. I am convinced that the Special Representative for Trade Negotiations, created by the Trade Expansion Act as a position responsible directly to the President and with confirmation by the Senate, was the proper means of carrying out the mandates of the 1962 Trade Act. I think it has brought much greater independence and much more scholarship into the conduct of our trade negotiations.

I am pleased to see that the continuation of the Office of the Special Representative has been budgeted for this fiscal year. Even though the Trade Act's delegation of negotiating authority has run out, there is nothing in the Trade Act to suggest that the Special Representative should cease functioning, and instead of allowing the function to wither, increased responsibility should be given to the Special Representative for conducting foreign trade relations. The impending legislation to give the President some "housekeeping" authority in this area may be an appropriate place to redefine the functions of the Special Representative and strengthen his office.

Ideally, I would like to see us move toward a method of administration used by the British and other governments. That is, I believe we should ultimately create a Department of International Economic Affairs headed by a Cabinet Secretary. This Department would combine functions in the trade area trade and monetary policy, including development aid, that now are scattered throughout the Government in many different agencies.

Finally, what of the congressional role in such decisionmaking? It is understood, of course, that the President has the power to conduct foreign relations, and it is equally certain that the Congress has the power to regulate interstate and foreign commerce. There is obviously a tension created by this assignment of powers. The tension can be restored by Congress truly taking the initiative in many difficult trade areas by holding hearings, by studying the problems, and then giving the President the mandate to try to solve the problems through international action. Another way to help resolve this inherent tension between executive and legislative powers is to include full congressional participation in cases where the President employs his negotiating power in the foreign trade field such as in the Kennedy Round.

The role of Congress in foreign trade is not simply passive. The Tariff Commission, of course, is an arm of Congress, in one way in which we do follow these things closely.

We should not simply sit by to act only when called upon by the President, or to examine trade policy broadly only in the years preceding or concluding a new tariff and trade negotiation. The role of Congress, and the participation of Congress, should be persistent and continuing, and it will be much more informed as a consequence.

So, I conclude by again urging that the Joint Economic Committee put on its agenda as a regular function hearings on the President's annual trade report.

Thank you very much.

Chairman BOGGS. Mr. Curtis, I would like to commend you on a very comprehensive statement, and on the amount of time and effort that you gave not only to the statement but to the work that you did in Geneva. I appreciate very much your coming here. Your statement has been most helpful.

Mr. Reuss, any questions?

Representative REUSS. Thank you, Mr. Chairman.

I join with our chairman in congratulating Mr. Curtis, not only on the statement, but on his valuable work in making, I think, a tremendous success out of the congressional experiment in the Trade Expansion Act in section 243, in setting up a full-fledged congressional delegate.

I have read over the years with great interest the interim reports which you have given us in the Congress, and usually in the pages of the Congressional Record. I don't say that I have read every word of the fine print, but I have read most of it. And I think you have done a tremendous job of keeping us informed.

I also find myself in very close agreement with you on almost every point you make in this substantive paper this morning.

I would take time to pursue just one line there with you. You point out, and it is surely true, that in trade negotiations themselves we in the Congress through the congressional delegates, have established a pretty good liaison arrangement. We have tried to adapt our congressional political system to the needs of the modern world. It is also true, I think, that in the field of international monetary reform—something that is not before us this morning—due to the receptivity of Secretary Fowler and the Treasury Department generally, a good working arrangement has been provided whereby the Joint Economic Committee and the Banking and Currency Committee have been kept in close touch with the progress of international monetary negotiations. And while some of us aren't formal delegates, there is a role analagous to our role in trade.

Which leads me, of course, to your excellent suggestion that we should give consideration to the establishment of a permanent or semi-permanent foreign economic policy commission, on which I would take it you would want Hoover Commission type congressional representation?

Representative CURTIS. Yes.

Representative REUSS. You spoke specifically of Ambassador Roth's ad hoc informal activities. But there he is concerned just with trade. And it is informal. I think I am right in distilling out of what you said a recommendation that there should be a statutory forum and a congressionally participated in foreign economic policy commission.

Representative CURTIS. Yes; I think it should be formalized. I think we know enough now so that we could formalize it with some wisdom.

Representative REUSS. And this commission would concern itself with trade negotiations, of course, with international monetary matters, but also with some of these other important things, monetary values, commodity agreements——

Representative CURTIS. Investment, development loan funds, and very close coordination with AID. I want to again emphasize that I think that AID performs a real function, but in order to do it it should be closely coordinated with the private sector.

Representative REUSS. One point you made in connection with primary commodities of developing countries. You particularly mentioned the other commodity which I have had occasion to allude to the 2 days of hearings, sugar. And it seemed to me that these were items as to which long range and well thought out policies were necessary. It is not criticizing anybody in particular to say that we do not now have them. We are hopeful that a foreign policy economic commission could take a fresh approach.

Representative CURTIS. I think the Joint Economic Committee would take any commodity, sugar, for instance, one that is important to developing countries—or coffee, or copper and go into depth to determine what the economics and the political problems are. I think that would be very desirable. That is where I would like to see us do this study on the futures market to see whether my hunch that futures markets, properly regulated, would serve the very necessary purpose of stabilizing prices is valid. That was the big reason for the International Coffee Agreement. The prices do fluctuate. So we went to, in effect, the quota license technique of stabilizing the prices. I think if we understood the futures markets better we would find that this would serve this purpose and really utilize the great efficiencies that do exist in the marketplace.

Representative REUSS. I am not sure, at this stage, that I share your optimism about the futures market as a sole regulator of the price and protection of basic commodities. But the only way to find out is to study it. And that has not been done.

I conclude with the hope that you will further refine your thoughts about a foreign economic policy commission and introduce legislation on it. I am certainly disposed to want to work with you on it.

Representative CURTIS. Let me say that perhaps we can work on this together. I would very much welcome you, and particularly someone from the other side of the aisle. This is not a partisan thing in any sense, and I think it would be very valuable to work on this on a bipartisan basis.

Representative REUSS (now presiding). I thank the gentleman.

Mr. Widnall?

Representative WIDNALL. Thank you, Mr. Chairman.

I do want to join with the chairman and with Congressman Reuss in complimenting you on the excellent presentation today and the fine effort that you have been making in this particular field.

For those of us in the Congress who have been with you over a period of years know of your own expertise in this particular area and your own dedication through the years.

You have made some very constructive suggestions here today that I think, as Congressman Reuss has just said, refined and presented would give us something more than a pause for thought, and a chance to act affirmatively on something that can improve our present position.

I want to especially commend you for the great effort that you have been making through the years to inform the country and also the Congress as to what has been going on. And the five reports that you are now making in a series called "The Kennedy Round and the Future of the U.S. Trade Policy" I think will prove invaluable to all of us.

Thank you.

Representative CURTIS. Thank you very much.

I would like to add one other thing. Many people in my own community have said why spend all of this effort on such a complicated subject as foreign trade and what it does to us.

I honestly believe that there is more war and peace wrapped up in these economic problems and trade than anything I can think of. If we can come up with more rational solutions in this area, we are going to do more toward attaining that which we are all seeking, which is a peaceful world based on justice. And I think the efforts are well worth it to dig into this most complicated subject and see what we can do.

Representative REUSS. I agree with you. And I don't have to adjure the gentleman to stick to his guns, because I know he will.

We want to thank you, Congressman Curtis, for your great contribution. And we want to thank the other excellent witnesses that appeared before us this morning.

Chairman Boggs had to go to the phone, but he has asked me to say that we will convene tomorrow morning at 10 o'clock in room 1202, New Senate Office Building, where we will hear Kenneth Younger, director, Royal Institute of International Affairs, and Aurelio Peccei, vice chairman of Olivetti, member of the Steering Committee of Fiat-Turin, and president of Italconsult, Rome.

We stand adjourned until that time.

(Whereupon, at 11:55 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Thursday, July 13, 1967).