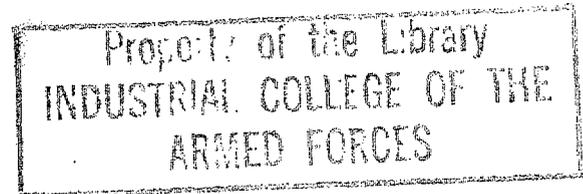


THE U.S. FOREIGN TRADE POSITION

Honorable Christian A. Herter

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Reviewed by Col R. W. Bergamyer, USAF on 18 November 1963

INDUSTRIAL COLLEGE OF THE ARMED FORCES
WASHINGTON, D. C.

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THE U. S. FOREIGN TRADE POSITION

5 November 1963

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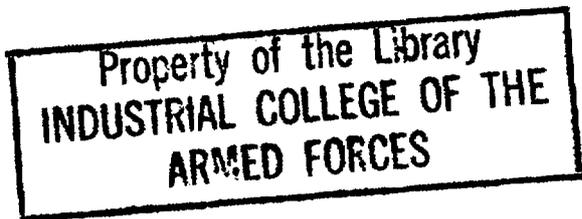
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Reporter--Grace R. O'Toole



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ADMIRAL ROSE: Gentlemen: There are lots of jokes about the chicken war, and it is not a joke. It is only one indication of the kind of problems that our speaker this morning has to deal with.

We in the military certainly know one of the effects of the balance of trade, an adverse balance of trade and gold flow. Most of us were either overseas or thinking about being overseas when, for a time, at least, dependents didn't go overseas. There can be all kinds of military implications as well as trade implications to the business of the U. S. trade overseas.

To speak to us this morning is the man who has the responsibility for the United States in this general field.

It is a great pleasure and honor to present the President's Special Representative for Trade Negotiations, the Honorable Christian A. Herter.

GOVERNOR HERTER: Admiral, Gentlemen: The particular responsibilities that the office that I head has been given were clearly laid out by an act of Congress, the Trade Expansion Act, which created this particular job in part because it felt that none of the existing departments ought to have the full responsibility and that someone who was divorced from any one of the departments should take it over.

The job not only has specific duties to perform but, as the head of that office, I have the responsibility in trade matters, where I

Chair a Cabinet-level committee and have the primary responsibility in advising the President.

If I may I'd like to put this job in the setting of our overall national policy in the foreign field, because I think it has to be considered as a part of an overall hope, at least, that this Nation had from the point of view of the development of the free world. When the Common Market was established on top of the Coal and Steel Community and Euratom, it was very clear that there was in the process of formation in Europe a free trade area, or a growing free trade area, that would become a complete free trade area second in importance only to the United States.

If the British and other free-trade-area countries in Europe had become a part of the Common Market, or if they do become a part of the Common Market, it will be considerably larger than the United States and will be an area of tremendous importance from the point of view of the trading relationships and the commercial relationships of the whole world.

It had been the hope of succeeding Administrations of our Government that by degrees the free world would consolidate itself from a political point of view so that it could present a unified front insofar as the major difficulties with the East were concerned--with Communist China, with Russia, and the satellite states.

There were two major elements that entered into the possibility of pulling together what you might call the Atlantic Community into an

effective entity from a political point of view. One of those, of course, was on the military side and the other was on the economic side. And the reason that I undertook this particular job, the reason that I think a good many hopes have been based on the success of negotiations that we might be able to carry out, was the feeling that, if the commercial relations between the free nations--the important industrial nations as well as other nations of the free world--could be so arranged as to make closer political union possible, then, again assuming that the military side could be adjusted satisfactorily, there would be a unity of thought in the free world that would lead to our hope that we wouldn't be buried, that in fact the reverse would take place, and that in time there would be developments throughout the entire world community which would be very favorable toward the maintenance of peace and continuing growth.

The Trade Expansion Act was in many ways a move fostered as a result of the formation of the Common Market. It represented an effort on the part of the Congress and the Administration to give to the President powers much greater than he had ever had before in the negotiation of trade arrangements. It would give him powers not only in the tariff field but also in the field of barriers to trade other than tariff barriers, and within the limits prescribed by the law, it gave him completely blank powers to negotiate with the other nations of the world in order to free trade from many of its restraints, whether they be tariffs or otherwise, in the hope that greater trade would lead to greater political unity, greater prosperity, and, incidentally--and I'll come to this as a separate

matter--be of some help to us in our overall balance-of-payments picture.

The law itself had some curious provisions. Those provisions stemmed from the fact that the Congress expected Great Britain to become a part of the Common Market, and perhaps other nations in Europe. There was a special provision in the law which allowed the President to reduce tariffs down to zero on those products which in world trade represented 80 percent of world trade, as between the Common Market and ourselves. That provision is almost a dead letter. Actually, today we can't figure whether anything will come under that provision except possibly airplanes and airplane parts, and possibly again a few perfumes or some vegetable oils. This the Tariff Commission is trying to figure out at the present time, and it will be some months before they'll figure out whether anything can be negotiated under that particular provision of the law.

But the important provisions of the law came under four different heads. The principal one, and the most important one, was allowing the President to negotiate for the reduction of our tariffs up to 50 percent spread over a 5-year period, 10 percent each year over a 5-year period. That is much the most important provision of the law. It does allow us to negotiate those tariffs which are 5 percent and below down to zero, to negotiate down to zero all tariffs on tropical products, and also to reduce to zero a whole series of agricultural products that are so hemmed in with special requirements, namely, that they can be reduced to zero only if this would lead to an increase, and a substantial increase, in exports in the same commodity to the Common Market. This latter provision

I think is also almost a dead letter.

But the 50 percent provision was the important part of this law. In addition to that we did allow the special negotiator to negotiate the reductions of trade barriers, to which I'll allude in a few moments.

The law has now been on the statute books for over a year. The office which I hold was not organized until December of last year, and it wasn't until January that the President issued an Executive Order outlining the responsibilities of the Negotiator over and above what was specified in the law. Actually, the President gave to this office considerably more authority from the point of view of being his principal trade adviser than the law itself provided.

The organization of negotiations has been a very slow matter. It was a slow matter from our point of view because of a very curious and unexpected quirk that arose at the time that we began studying the directions in which we could move. Some 8-1/2 years ago the Congress gave the Tariff Commission authority to revise and simplify our tariff schedules. They have been at work on this for 8-1/2 years. They were about to complete their job when we suddenly found that, until they had completed their job, there was complete uncertainty as to what language we could talk in, and as to what numbers would represent what particular commodities, and we had to get the simplification act out of the way and in force before we could really begin to talk about tariff reductions of any kind whatsoever. We had to have some sort of common language.

Unfortunately, the authority given to the Tariff Commission, or

the responsibility given to it by the Congress, was of a complicated order. Instead of asking them to adjust our tariff schedule to what is known as the Brussels nomenclature which is adopted by all the countries in Europe, it was merely given the job of simplifying. As a result, we have a new tariff structure which went into effect only at the end of August, which again leads to our talking in terms that are unfamiliar to the Europeans and that they are trying to familiarize themselves with, and of course entirely unfamiliar to us and to our industries. We are only just beginning to get ourselves accustomed to this new nomenclature.

In the process of the simplification, the Tariff Commission had to deal with some 6,000 or 7,000 different items. They had to in some cases raise the tariffs on items and in others lower them. They had to try to balance these things out. We had to negotiate with every nation in the world as a result of this simplification act, so that we found a good many imbalances. Countries where the tariffs had been raised against them in the process of this simplification had to be given compensation elsewhere. We now have a seven-man negotiating team in Geneva trying to work out just the details, the minutiae, of getting ourselves straightened out on this new schedule.

It has been a hideously technical and complicated job but now it's beginning to get out of the way. However, the law required that, before we could enter into any negotiations, there had to be certain provisions complied with, which take a very considerable period of time. Those

provisions required the Office of the President to send to the Tariff Commission a list of the products on which we would be willing to negotiate under the different categories that I have just mentioned, the most important one of which being the 50 percent category.

This couldn't be done until the new simplified structure had become law. That wasn't until the end of August. After that we began to work on these lists and they have now gone forward from the President to the Tariff Commission.

Under the law, the Tariff Commission, from the point of view of the time when it received these lists, has to make a report to the President on the economic implications of a 50 percent cut or a cut on tropical products to zero or the 5 percent to zero and on the economic impact of such cuts under our economy as a whole.

Hearings are just going to begin, early in December, on this matter, and the Tariff Commission must put in its report to the President within the six-month period. In addition, the office that I head has to have separate hearings, a set of hearings in which anybody can come and talk to us about any part of this program, whether directly or indirectly related to the 50 percent cut or other cuts.

What we hoped and what we still hope is that our hearings will be different from the Tariff Commission hearings, that the hearings of the Tariff Commission will be essentially for those who want to continue protection, and that the hearings before our office will have to do largely with restraints to trade and concessions that American industry

would like to see us obtain from other nations, in other words, that we be on the side of trying to work out what our industry feels would help with its export trade if we could get some of the barriers removed, with the tariff or otherwise, against us in other nations of the world.

There is no time limit as to when we report to the President, but he cannot make a final judgment as to what items we are willing to put on the table for negotiation until he has had both the Tariff Commission report and our report, which will be a summary of our hearings and our judgment and recommendations. He also has to take the advice of the Defense Department, Interior, Labor, State, Commerce, and so on, and any other source from which he wishes to draw advice, and then make up his mind what we are willing to put on the table for negotiation and the extent to which we are willing to negotiate, whether it be the 50 percent or some lesser amount.

All of this is a very time-consuming operation and has meant that the actual negotiations from the point of view of the removal of tariffs or other barriers can't begin until the legislatively required processes have been complied with. We have had to explain to all the other nations of the world that are interested in these negotiations that we have had to hold up until these things have been complied with before we can actually sit down at the negotiating table.

But, from another point of view, negotiations are already under way, and they have been under way ever since last May. Last May the GATT,

under the auspices of which the negotiations take place, held a ministerial-level meeting in Geneva, at which we were supposed to begin to lay down the ground rules under which we would negotiate. It is those ground rules that are causing the most difficult problems and some problems that we may have very serious difficulties in resolving before we ever get to the negotiating table on tariffs. If I take some time on those I think you will realize the complications that are involved and the delays that may take place from the point of view of the overall negotiations.

When we got to Geneva we found that the Common Market officials, the members of the Commission, had had some conferences among themselves, and, largely at the instigation of the French, felt that in any ground rules that were laid consideration had to be taken of what they called disparities in tariff schedules. It so happened that the United States has a number of very high tariffs. It also has a very large number of low tariffs. Our average tariff schedules are just about the same as the EEC, but they are very different from the point of view of the overall structure. EEC began with the proposal that we had to find an automatic and general formula whereby, in taking care of these disparities, we would give a great deal more than they would give, because they were medium tariff and we were high and we were low. They paid no attention to our lows. What they were really trying to do was to get a harmonization of our tariffs so that all our high tariffs would come down to their medium tariffs.

They also were in some difficulty on this because, back in 1958, they had held negotiations with the EFTA countries, the free trade area, as you know, the seven countries, with Great Britain a member, on this same basis. The EFTA countries, particularly the Scandinavians, the Austrians, and the Swiss, had considerably lower tariffs on the average than did the EEC countries, and they claimed that if they were going to negotiate with the EEC they ought to receive special consideration because they started from a lower base. The Commission said they had never heard a more ridiculous argument and that they wouldn't even consider it, so their negotiations broke down.

When we taxed those officials with having been somewhat inconsistent in their positions, they admitted freely that they were inconsistent, but they took care of the matter by saying that they were right now and they had been wrong then.

There was one thing that came out of the last round of tariff negotiations that was very clear. The so-called Dillon round that ended in 1962 had begun in 1960 at Geneva. It was the last time that we had a large international conference. We covered at that time only about one-third of our entire tariff schedule. The negotiations had to take place on the basis of a product by product and country by country negotiation. Our negotiators sat in Geneva for 445 working days and, as I say, took care of only about one-third of the full tariff schedule. If these new rounds had been based on the same type of negotiation, I know I would never have lived long enough to see the end of them, and a great many other

people connected with the negotiation wouldn't have lived long enough. We would probably have been 5 or 6 years or more trying to negotiate these things out on a country by country and item by item basis.

So that everybody was in agreement, except for this disparity matter, that we ought to try to negotiate on a different basis, and that was on a linear-cut basis, which is identifying the groups of products or the product on which we would just have an automatic cut of either 50 percent or a lesser amount, over a 5-year period, or the lesser amount over a longer period of time.

Our ministerial conference in Geneva very nearly broke up over this one issue. The feelings ran very high, and it was quite apparent that we were beginning to have troubles right from the outset, troubles of a nature that I'll come to in a moment, because they were much more basic than this particular issue.

We finally compromised the issue by adopting a resolution which provided for the equi-linear cuts across the board as the general rule. We then tried to find, on the basis of the meaningfulness of their trade, those items where a disparity existed to which a special rule might apply. We are still in the process of talking about this. We have literally made no headway whatever since last May on this. We have been examining varying formulae. The Commission itself hasn't made up its mind what it wants to do. It has been studying formulae. We don't know when this particular issue will be resolved.

I think I ought to say that this issue doesn't stand on its own feet

as an issue by itself. It is a symbol of something very much deeper. The Common Market is at sixes and sevens today. It is really in disarray, and it has been in disarray ever since DeGaulle's press conference in January of last year. In fact, the Commissioners of the Common Market are very able and distinguished individuals. There are some nine of them. Halstein is President of the group. Those individuals have made one recommendation after another to the Council of Ministers who sit on top of them, and they haven't been able to get anything adopted. The Council of Ministers have been in complete disagreement. The Council of Ministers have refused to give real negotiating powers to these Common Market Commissioners.

The Treaty of Rome, under article 111, provides that the Commission shall be a negotiating body on tariffs on behalf of the six nations, and yet the Commission can^{not} get authority enough to move so that it is a real negotiating entity. It has to do everything ad referendum or, even worse, it has to get permission to go in certain directions before it can negotiate. This has made the procedural process of trying to find a common basis on which to negotiate a very difficult one.

We are hoping that this perhaps can be adjusted. The chicken war, to which I will allude in a little while, has shown up this difficulty probably more effectively than almost anything that could have happened.

The Council of Ministers met 10 different times on the question of chickens and were unable to agree at any time on any amelioration of a common agricultural policy that they put into effect and implemented for

the first time, insofar as important agricultural products were concerned, with chickens.

This leads me right into the second of our biggest difficulties, and that is agriculture. At the very outset, when the ministerial meeting took place in Geneva, I made a pretty strong statement, that the United States was not going to negotiate industrial tariffs divorced from agricultural tariffs or restrictions on trade in the agricultural field. The reason for this was that, at the time of the Dillon round, the European Common Market refused to talk on agricultural products. They refused to talk about them because they said, "We haven't yet adopted a common agricultural policy, and until we have a common agricultural policy it is impossible for us to negotiate in this field." As a result we had to drop talking about agricultural products, but we reserved our rights under what were called standstill agreements, where it was fairly clear that they could not take adverse action against us without negotiating with us. In the case of the chickens they took the adverse action without negotiating, and as a result we are now in the process of having an international determination made as to the degree of trade involved in this on which we can take retaliatory action, and on which we will have to take retaliatory action, probably within the next 2 or 3 weeks.

This agricultural problem is one which is of very great importance to us, because our trade with the Common Market alone in agricultural products, our exports, run between \$1.2 billion and \$1.4 billion a year.

Their agricultural sales to us are only about \$200 million a year. There is a tremendous imbalance. Within the Common Market itself there is an inability, even though a common agricultural policy was adopted, to implement such a policy. There is a very acute difference of opinion between the French and the Germans on this score, and somewhat with the Italians and somewhat with the Dutch. But a French and German impasse has been reached in this agricultural field and it is likely to slow down our negotiations very seriously.

In the agricultural field they say that they cannot negotiate with us until their own house is in order, and we say that we are not going to negotiate on industrial products until we find a reasonable assurance that we can get satisfactory arrangements in the agricultural field.

The question of this agricultural field is very much complicated by internal policies. The French have got probably six million acres of marginal land that they are very anxious to turn into wheat and other agricultural products, provided they have got a monopoly of the market within the Common Market area. That means largely supplying the Germans, who are the largest importers of food, and the Italians secondarily, within the Common Market itself.

The Germans have got the highest protection for their farmers of any country in Europe. In fact, their wheat price today is just about double the world wheat price. It's a very uneconomic thing, and yet it is a highly sensitive political thing which Erhardt, who is basically a very liberal free-trader, cannot resolve at the present time. Just how

soon he will be able to resolve it, if at all, remains to be seen, because his party and the free German Democratic Party which together make up the coalition which put first Adenauer in power in recent times and now Erhardt and party is very heavily dependent on the agricultural vote, which is a small vote but none the less a very important one from their point of view for their being able to maintain their position as the ruling party of Germany.

The French want a low price on wheat; the Germans want a high price on wheat. They aren't getting any closer together on this. After this chicken business, they are just literally unable, through the Commission or through negotiations among themselves, to reach any implementation of the common agricultural policy.

They've got the problem of rice; they've got the problem of meats; they've got the problem of dairy products; they've got the problem of the coarse grains; and finally the problem of wheat, and they just cannot make any headway on any of these as of now.

The French hoped that by the end of this year they could force the Germans to agree on everything except the wheat price. They are not going to succeed in that, because, basically, the Germans are tremendously interested in getting agreement among the Six with regard to tariff reductions on industrial products. Of all the Common Market countries, the Germans are the keenest to see a reduction. They are more conscious of world trade and the necessity of taking a larger part in world trade than any of the other countries in the Common Market. They are afraid that the French are likely to sabotage the tariff negotiation on industrial

products because the French, very frankly, are not very keen about reducing their tariffs any further than they had to reduce them within the Common Market area.

I think I can say very frankly that there is one factor working in favor of reaching some kind of solution on the French side that can eventually make it possible for us to enter into serious negotiation, and that is the very real inflation that has taken place in France and is still taking place now. As you all know, there are series of very important strikes going on in France now. Most of them are of short duration but they are all symptomatic of very deep unrest on the part of the workers for the state who find that their wages are not keeping up with the cost of living rises, and who are showing great independence in striking against their own government.

This is only a part of a reaction that was shown by the farm element last summer when they threw potatoes and tomatoes and apricots all over the streets of the areas in which they were produced as a protest against the low prices the farmers were getting.

But the inflation in France has been very considerable. The present French Minister of Finance, Mr. Destaing, is risking his political future on a stabilization program which means holding ^{down} wages. As a part of his stabilization program he is very anxious to lower import duties through the tariff schedule, in order that more goods will be imported into France to arrest this inflationary movement.

So there is a big battle going on in France itself between the

Minister of Finance and the Minister of Trade as to whether or not France will seriously enter into tariff negotiation.

Now, I've explained that these are the two major difficulties that we are facing, but I have talked so far only about our relationship with the Common Market. This is terribly important, because the Common Market represents so large a new area that will be a free-trade area in a comparatively short period of years.

But we have many other problems besides those. Canada until the Common Market was formed was away ahead of any of the Common Market countries in importance to the United States from a trade point of view. Our trade with Canada is almost as large as our trade with the entire Common Market. Japan is only a little way behind Canada. These are our two largest trading partners. Between the two of them they are considerably more than the Common Market area. So that we've got some very real problems with the Canadians and with the Japanese to try to work out formulae that will apply, as far as Europe is concerned, equally for Canada and for Japan.

Let me just roughly sketch their rather peculiar position. The Canadians have got a very heavy adverse trade balance with the United States. They buy from us and they have tourist expenditures in the United States very much greater than the reverse. In fact, that item has run to very near a billion and some years over a billion dollars a year. They have been making up for it largely by borrowing in our market, borrowing dollars for capital expansion in Canada, and today they

are terribly conscious, and unhappily conscious, of the fact that 60 percent of all of their industry is owned by the United States and 85 percent of all their extractive industry, that is, minerals, raw materials, and oil and gas, so that their market is terrifically dominated by American capital and American management. They are most anxious, from a nationalist point of view, to try to get out from under this, because quite properly they say that a subsidiary of an American company manufacturing in Canada is not going to manufacture in that small market in order to compete with itself in the United States market. In other words, it is manufacturing for only the protected market in Canada, which is perhaps 18 million people as against 180 million in this country. Canada is very anxious to get out from under this bad bind that politically is a sore spot, and from their own point of view their feeling that they are the underdog being squeezed by the big giant makes that situation hard.

They have a lot of secondary industries where they feel that they cannot make tariff cuts on the 50 percent basis. They have other areas where they feel they can make more. They are willing to talk about this situation from the point of view of paying their way in a balance. They say they can't do it on an equilinear-cut basis. So we will have to have separate negotiations with them, because the GATT generally feels that this problem is primarily a problem between Canada and the United States. If we can satisfy ourselves on a bilateral basis that we have a fair deal between ourselves, the GATT countries are likely to accept it.

The Japanese position is very different. The Japanese have been

making the most fantastic strides from an industrial point of view. As all of you know, they have grown faster than any country in the world since the end of the war. They have not only grown from the industrial point of view by being very good imitators but they are now moving ahead to where their engineering is getting better and better, where they are showing great ingenuity, where they are learning market practices very much more effectively, and where they have become a very great industrial power.

But they still have a social situation which is extremely difficult for them. One-third of their people are still on the farms. They have raised in their farming community the percentage of farmers who can support themselves from about 70 percent to 90 or more percent in food-stuffs. This has meant a very highly protected agriculture.

But their agriculture has got some perfectly impossible features. With one-third of their population in agriculture the average holdings of a farmer in Japan today are 1.2 acres. He's got to make a living on 1.2 acres for himself and his family. That means that his standard of living and his intake is very, very small compared to the industrial worker whose wages have been going up steadily, and whom the farmer has been eyeing with a very jaundiced eye.

The Japanese are trying to convert a lot of their farm population to industry, just as the German industrial community would like to do, but they haven't been very successful. It has been a very slow process. They are slowly getting people off the farm into industry, but when

they get them into industry it means that they've got to be able to produce something that the Japanese can either consume internally or export. The Japanese have to import nearly all their raw material. Silk is about the only one they don't. That includes coal, iron, cotton, scrap steel, and almost everything. In order to be able to import these things they've got to export.

This presents again a problem because agriculturally their protection of their people is a very strong protection. Curiously enough, they are moving, as most countries are whose standards of living are going up, away from a diet of cereals, whether it be rice or wheat, to a diet that includes more meat, whether it be chicken, whether it be pork, or whether it be beef, and more dairy products. This goes inevitably with the increase in standards of living.

This has a very great bearing on our agricultural exports because in most countries feed grains cannot be grown nearly as economically as they can in this country, and our feed-grain exports are increasing very materially. We therefore have this very great interest in maintaining that market, particularly as far as Europe is concerned, and also in Japan.

These are roughly some of the major difficulties that we face in coming into this round of negotiations. We ourselves have got a very real problem, which is the third major problem that has to be adjusted from the point of view of establishing rules before we get into the tariff negotiations themselves. That is the problem of exceptions.

Under the Trade Expansion Act, the Congress excepted certain things from the negotiations. They were those things on which the Tariff Commission had made escape-clause findings and the President had taken action . There are only eight commodities in that. Some of those you are very familiar with. Carpets and glass are the most recent ones, and there are watches, lead, and zinc. The others are pretty minor--clinical thermometers and a few other things. But there is a secondary list in there, and then there is the list on which the Tariff Commission, ever since 1952, has taken escape-clause action and the President has not acted. The industries concerned have to get a ruling from the Tariff Commission that the economic picture has not changed any and then automatically those particular products go off the list. They have to go onto a reserve list that we can't negotiate.

When you add up the total volume of trade in all of these items-- and they represent about 26 in all--they come to not more than 1.5 percent of our import trade. It's a very small item. But there is another thing that we have to except, and that is any product on which a national security finding has been made by the OEP. There has been only one, and that is petroleum and petroleum products. Unfortunately, however, that represents nearly 12 percent of all of our imports. So we have to reserve by law somewhere between 12 and 13.5 percent of all of our imports from these negotiations, the tariff negotiations.

If every other country reserved a similar amount, we would soon find that there was very little to negotiate about. All these things

would be removed from the negotiations because of either national-defense considerations or just the right to say we wouldn't talk about these matters.

But we've got a problem of perhaps having to reserve a good deal more, because the whole purpose of these hearings before the Tariff Commission and before ourselves is to advise the President as to what items we should reserve from the negotiations. There are already tremendous pressures from the wool textile industry, from the shoe industry, from certain electronics manufacturers, from a great number of industries wanting to get put on that reserve list.

The general agreement that we made with regard to reserve items in Geneva in May was that we would try to hold them down--all nations would--to a minimum, and that they would be subject to confrontation. In other words, we would lay them on the table and discuss them with other nations, and perhaps trade out some here or some there. But this is going to be a difficult and a long process all by itself. Until you know what you are going to negotiate on, and until the question of the matter of exceptions has been settled--and this, as I say, will take a considerable amount of negotiating--we can't begin, until we make up our minds after these hearings, which means until next May. Then we have to confront other nations with these. We have to discuss and finally reach agreement on what each nation can reserve and still leave enough so that we have a meaningful negotiation.

This is our third complication, and it's a very real and a very

difficult one.

So, having outlined some complications that are ahead in a very difficult negotiation, I'll end my formal presentation by saying that I am still optimistic. Three months ago I was very pessimistic as to whether we were going to move anywhere, largely because of the impossibility of finding out what the French position was going to be. For the moment it is clarified. But let's be very frank about it. We are dealing with an extremely temperamental type of government which is the one-man government in France today. You never know when there will be a complete reversal of policy because of hurt feelings or because of saying, "We're going to work this thing out with the Germans ourselves and to hell with the United States. We want to get away from the dominance of the United States." We just don't know what is going to happen. But, as I say, I am feeling more optimistic.

Finally, I'll just say this: I am a very strong believer that releasing the barriers to trade is of value not to one country alone but to all countries. Since the Common Market went into effect its trade within the Common Market countries has increased almost 75 percent, and 50 percent with us on the outside. Our trade with the Common Market has increased tremendously.

There has been a tremendous emphasis. There has been a lot of new investment because of the opening up of a large free-trade area within the Common Market. But, obviously, when we are going across the board in these negotiations, we are going to have another problem which I

haven't time to discuss now but which is a very real one, and that is how you handle the less-developed countries, because they have been seeing a continual erosion of their position, they being largely exporters of primary products, whether tropical agricultural products or mineral products, the prices of which have been deteriorating, so that the total income with which they can finance imports has been getting smaller and smaller as the trade of the better-developed nations has been increasing by leaps and bounds. They are very restless and very unhappy, and the more-developed nations are going to have to find some policy, or else the aid programs that are in great difficulties up on Capitol Hill at the moment are going to have to be increased materially or you will find that in this world the rich are getting richer and the poor are getting poorer, and that the poor are getting more and more violent from the point of view of the social structure.

I am sorry to have spoken so much about complications. If you see in the days to come that things are moving slowly, you will realize that we have primary matters to settle before we can get down to tariff negotiations.

I have said nothing about barriers to trade other than tariff barriers. These bring another set of complications which we have to face squarely, where we do some signing and they do some signing, not a one-sided situation but one largely where we hope we will find rules of the game which can remove signing on both sides.

Thank you very much.

DR. CLEM: Governor Herter is ready for your questions.

QUESTION: Sir, would you extend your talk to bring in some of the other barriers to which we resort other than tariffs on trade?

GOVERNOR HERTER: Yes. One that they complain about as far as we are concerned comes under several heads. The most acute one is the so-called American pricing system that we use from the point of view of evaluation of certain products. That grew out of our experience in World War I. All of you are too young to remember this, but during World War I, the Deutschland, a German submarine, twice landed in Baltimore with a large supply of dyestuffs for the United States. This was during the war itself. It came across the Atlantic and brought us these dyestuffs. We had no dyestuff industry in this country. We were completely dependent on the Germans for dyestuffs. The Congress in 1922 passed a law to protect a budding dyestuffs industry, which was a chemical industry, in this country from coal-tar products, and put on a tariff which was quite a high tariff, not on the F.O.B. price which is the normal thing in the country itself--this is the way all of our tariffs are figured--but on the American selling price of the product, which obviously raised the tariff sometimes 100 percent over and above the tariff schedule.

This has been extended from the coal-tar products to now the derivatives of petroleum and natural gas. This is a very large element in our whole chemical industry. The French and the British and the Germans are terribly anxious to get into our chemical field, and they consider

this an entirely unfair method of evaluation. It is an uncertain and variable method of evaluation so you never know, depending on the domestic price of a given article, what the actual tariff is. It has very effectively shut out a very considerable portion of the chemical industry.

That is one thing that they object to very seriously, the pricing mechanism.

The second one has to do with our anti-dumping laws. At the present time any American concern can make a protest to the Treasury Department and say that a given import is being sold in this country at a price lower than that in the country from which it came in the domestic market there. This is in effect dumping. The Treasury has got to make up its mind whether there is a valid enough reason to make an investigation. In many cases they do make investigations. But appraisement of that article is withheld, and the exporter from the other country doesn't know what tariff he is going to have to pay. If it is a dumping thing, then the Tariff Commission has got to figure what injury has been suffered by the American industry as a result of this dumping, and put on additional duty, a form of countervailing duty, in order to take care of that injury.

This they object to very much, because it can be used as a blackmailing operation. Any company can make this protest to the Treasury Department. In the Administration in days gone by we often found that it took the Treasury over a year--I think it averaged 14 months--to reach a

decision. Then it had to go to the Tariff Commission. In the meanwhile the exporter didn't know what he had to pay, and he was very leery about sending any further goods into the United States under that classification. Only 3 percent of all the cases that the Treasury has investigated have been found to be dumping. Even in those 3 percent cases the Tariff Commission has found often that there was no injury to American industry as a whole as a result of it--I mean that particular category.

There is another thing they object to. They object to our Buy American policy. Here I take severe issue with them, because, in the balance of payments picture, if there is anything that is justified in my mind it is the Buy American policy. It's not good from an economic point of view but of all the things that we can do to try to help redress this balance of payments picture, to my mind, it is the most justifiable. I think we've got a right to determine how the American taxpayer's dollar is going to be spent, even though it costs more.

But you've got very strong differences of opinion on this, and it effectively shuts out any competing countries from the point of view of making bids on American governmental purchases. There you've got the tie-in on purchases where many of our loans are aid loans, Export-Import loans, and so on. The Buy American rule is a requirement.

Those are the three that they object to most on our side. We object to a whole series of things. I can't give you the whole catalog but there are all sorts of hidden export substitutes, particularly the remission of taxes. There are the quota systems that have been applied by the European countries. There is the very discriminatory tax, for instance, on automobiles, based on horsepower, and sometimes on the length of the

car, things of that kind that discriminate against the American automotive industry, and they are intended to. I could draw you a whole catalog of that type of thing. There are a great many of them. In the agricultural field they are particularly acute. They have sanitary regulations that are nothing but protectionist. They have nothing to do with whether somebody is going to be injured. In the chicken war, the French don't allow a single American frozen chicken to enter France, for health reasons. I don't think any impartial tribunal would ever uphold the health reason.

There are a great many barriers of that type to trade.

QUESTION: Congressman Bolton reported yesterday that the pending wheat sale to Russia would cause an additional balance of payments deficit, due primarily to the increased shipping costs that have already gone up almost double in the past six months or so. Will you comment on that, sir?

GOVERNOR HERTER: Yes. I don't know just how he got his arithmetic. I would say that the reverse is true, instead of the increase in the shipping costs. The increase in shipping costs was not due entirely to the wheat purchases in the United States. It had already started with the wheat purchases that the Canadians have got to make deliveries on. After all, the Chinese purchases have been very great and the Soviet purchases have been very great, not only from Canada but from Australia, too, and some from the Argentine, all of which have required rather urgent shipping. The Canadian picture is particularly difficult because

of the lakes freezing up very soon. How he can figure the arithmetic on this, I am not quite certain. I assume that he feels that our exports, which have to go in American bottoms, would be more expensive and hence we would be cut down on the exports. But there, no private concern has to ship in an American bottom. It's only in the coastwise trade that that has to be done, and only in the aid programs, where 50 percent has to go in American bottoms. I have great difficulty in seeing how he figured this.

The additional shipping cost, for instance, is being negotiated at the present time with the Russians. They will have to pay the shipping cost. We are not paying the shipping cost. They pay them and we get additional dollars as a result through any American bottoms that may be used.

So that I don't follow his arithmetic at all. I would say that the reverse is true.

QUESTION: Governor, do you believe our present drive to expand exports substantially contributes to our balance of payments problem?

GOVERNOR HERTER: You've asked a question that has got all the economists buffaloed. All one can do is to look into the crystal ball. Different economists have used different methods of trying to compute whether or not they are going to be a help or whether in the short run they are going to hurt and in the long run help, or just what the immediate effect will be. To my mind there is one imponderable in here that is really going to make the final calculation the correct one, if one is

on the optimistic side or on the pessimistic side. That's the attitude of American business. The American business man, except for a comparatively few large companies, has never been interested in the export trade. Our whole foreign trade, as you know, is only 4 percent of our gross national product. You go all the way from that to the Dutch, where it is 35 percent of their national product that goes into export trade, where it is absolutely vital to their existence. With the British and the Germans it's about 17 percent. But with us it is comparatively small.

Ever since the war the nations of Europe in their recovery programs-- and this is particularly true of the Germans and is also true of the British--have scanned any possible opening to increase their export trade. They are going to look at any reductions in our tariffs to see how they can increase their sales to the United States.

If we developed the same kind of aggressive policy and decided that we would take advantage of every reduction in tariffs or other trade barriers that have been made in other countries to see how we could increase our exports, I think we would be likely to find that there would be a very even balance or, if anything, in our favor, and that it would help our balance of payments.

But I think that this is the imponderable factor that no economist can figure--on what the attitude of American business will be, how important they think export trade is to our whole national picture, and how much they will push it.

QUESTION: Governor, may we please have your view on on the propo-
tion of the Trade Expansion Act which denied most-favored-nation treatment
to Poland and Yugoslavia?

GOVERNOR HERTER: Yes. I am on record on that. I wrote an article
last year on the subject in which I came out very strongly against the
withdrawal of the most-favored-nation clause. I said that it wasn't
important commercially and that it wasn't very important psychologically,
that, from the point of view of our entire effort to increase our friendly
relationship with the satellite countries and help them, as far as possible,
toward moving away from the complete domination of Moscow, trade relations
were an important factor, and this, to my mind, didn't make much differ-
ence from a commercial point of view, and from a psychological point of
view it set us back badly.

QUESTION: It has been rumored in the press that if the Common Market
does not resolve most of its agricultural problems by January 1, then
France would withdraw from the common external tariff and the Common
Market would then become a free-trade area instead of a customs area.
Do you believe that such extremes are likely?

GOVERNOR HERTER: No, I don't think so as of now. The French have
been trying to explain that statement that you referred to. Ever since
it was made they have been saying that they didn't really mean it in
those terms. The French have determined to put all the pressure they
can on the Germans in order to get them to agree to the implementation
of the common agricultural policy that I spoke about earlier. This

was, I take it, another pressure move as far as the Germans were concerned. But, as of now, the eggs are so scrambled from the point of view of the Common Market that it is going to be very difficult to unscramble them. The day may come when the Common Market breaks up. It may break up on the agricultural issue. But basically this is a political matter, and I think that all of the countries in the EEC feel so strongly that politically they've got to hold together now and try to make a success of what turned out in its early stages to be a tremendous success and try to carry on that momentum that those forces will be a good deal stronger than the disruptive forces.

But, again, you can't tell. If the political picture becomes more acute, something of this kind might happen.

QUESTION: Would you discuss the effect on trade of the fact that EEC uses the metric system of measurement, the U. S. primarily uses the English system of measurement, and Russia uses the metric system also? Having our system essentially compatible with the EEC on industrial goods and things would seem to be commercially important.

GOVERNOR HERTER: There is no question that our using our linear foot and yard, inch, and so on is a nuisance, and the fact that we haven't got a common system. The British, as you know, reviewed this matter very carefully and have decided to move into the metric system by degrees. They began with temperatures. You may have noticed in the English paper that for quite a long time they had the temperature both in Centigrade and in Fahrenheit. Now they have dropped the Fahrenheit

entirely and have gone to the Centigrade. I think it will help them to do this in their currency in time, and get away from the pounds, shillings, and pence, and then do it in the measurement system. But it's a very difficult thing to make the adjustment and to make the change.

From the point of view of computers and other things, you can shift so rapidly from one to the other that it is becoming less of a nuisance than it used to be, where all the arithmetic had to be done on a pad with a pencil.

So that I don't think it is too great a barrier to trade, but it is a nuisance.

QUESTION: What is the position of Monnet on the tariff negotiations, and what influence does he wield on the French position?

GOVERNOR HERTER: I think Monnet is very keen to see the so-called Kennedy round succeed. He feels that from a political point of view this would mean a very great move forward toward the integration movement in which he is so interested. Insofar as his influence is concerned, I think it's awfully hard to tell. It had been very great. The impetus of a few individuals, like Adenauer, Schumann, and Monnet, had led to the formation of the Coal and Steel Community and the Common Market, all of which had as their objective eventual political integration.

That has been very badly stalled, as you know, by DeGaulle's in-nom-de-patrie theory, where no sovereignty would be given up by any

nation and there would be a very loose type of confederation. The lower countries--the Dutch, the Belgians, Luxembourg, and so on--refused to go along with that idea. They think it's a perfectly useless thing and they want to feel closer integration. They would much rather wait it out than get into what they think is a rather futile type of integration.

Monnet has got a very strong organization, in the sense that his particular group that he heads have got very important representatives from labor, the military, and of political thought as members of the group. But, as of now, in the French picture, the decision of one man counts. And of course Monnet and DeGaulle don't get along at all.

QUESTION: Sir, would you comment on what effect American-owned subsidiaries abroad has had on the negotiation in the world trade position?

GOVERNOR HERTER: Yes. As of now I don't think it has had too much influence on this. There is some difference of thought about that. The British have welcomed the introduction of American branch plants in England, for the reason that those branch plants have utilized the manufacturing facilities in England to do a great deal of exporting of their commodities, not to the United States but to the Commonwealth countries, and also to the Common Market.

The French have taken a different position from the point of view of American investment. They have taken the position that they don't mind American investment provided it doesn't cover so large an element in the production of any commodity in the country as to have strong

political influence. They are particularly resentful of the Chrysler deal on Simca and of the formation of the Libby-McNeil-Libby canning plants in France, and so on.

But, generally speaking, these countries have welcomed American investment. It's a question of degree in large measure. I don't think it influences the negotiations much.

On the other hand, our picture with Canada is a very difficult one at the moment, in the new regulations that they put into effect with regard to automobile parts. I've got a feeling that in the next few weeks we are going to have to make a decision in this country which is mandatory under the law, for the Treasury to consider this a bounty or a grant in stimulating exports from Canada to the United States, as we will have to put on countervailing duties which would really negate what the Canadians are doing.

Then we'll run into a greater danger. Maybe the Canadians will then say that the American automobile manufacturers in Canada--and the five big ones are all manufacturing there--must make 80 percent of the components, instead of the 50 percent they require now, in Canada itself. This would mean a very large new plant investment for a very small market.

QUESTION: Governor, would you comment on the problems of the possibility of the United Kingdom getting into the Common Market?

GOVERNOR HERTER: Yes. As of now I'd say that this is a remote possibility. Just what the time table can be, I don't know. The Germans, the Dutch, the Italians, and the Belgians are all keen to get Great Britain

in, but they know that it is an impossible situation now, with the French attitude, but more than the French attitude. Until the British elections are over the British government itself doesn't know what it is going to do. The present Tory government is not going to be rebuffed again. They are not going to go near the Common Market from the point of view of adherence to it, unless they are really invited to and if conditions have all been arranged in advance, so that they don't take the kind of beating they took the last time.

The Labor Party, under Harold Wilson, has taken the position that Gaitskell did, of putting impossible conditions on Great Britain's joining the Common Market. Whether, if Labor comes in, they will change that position, so that eventually they might modify the conditions to the extent that some kind of juncture is possible, I don't know.

I'd say this is a good many years away, in any case. I think there is a very strong feeling in England that it is desirable for them to do it, particularly in industrial circles, but for the time being I'd say it is out of the question.

QUESTION: Governor, with Britain being excluded from the Common Market, do you foresee the European Free Trade Association becoming a much stronger organization than it was before?

GOVERNOR HERTER: Yes, I do. This is actually happening at the present time. It's a very curious thing. You've got these two groups of nations that are internally reducing their tariffs among themselves, step by step. The EFTA countries have reduced their internal tariffs

on just the same basis as the Common Market has. They've got them down now to about 40 percent of where they started from. But the EFTA countries are increasing trade among themselves very rapidly, and are also increasing their trade with the EEC. The EFTA countries have become much more conscious of their position. It has improved very materially.

The British position has improved, in spite of their not getting into the Common Market, surprisingly. Many of those who prophesied that this would hurt the British considerably turned out to be wrong. Their internal situation has improved very materially. Their balance of payments position has improved very materially.

So that I think that the EFTA countries as a group are still important. Some of them are trying to break away, particularly Austria and Denmark, and make separate arrangements with the EEC. This is particularly true of Austria. They want the best of all possible worlds. They want to be in both organizations. The reason for that is that the great bulk of their trade is with the EEC and not with the EFTA countries.

QUESTION: Would you comment on the possible effect / ^{which} the increased trade activities of the Common Market with the Soviet bloc might have on our negotiations with the Common Market?

GOVERNOR HERTER: Yes. I am not sure that they necessarily will have anything to do with them. There is coming a conference at the end of March in Geneva, sponsored by the United Nations, when the less-developed countries and the Soviet group are going to be discussing trade

policy. There may be some very important results from that conference. The more-developed countries are still somewhat at sixes and sevens as to how to deal with this picture. The basic problem with the Soviet bloc is the question of state trading. You've got it not only in the Soviet block; you've got it with a lot of the underdeveloped countries that are nationalizing industries or taking over this, that, or the other thing. In the UAR, for instance, today, their entire trade is state-dominated. The entire foreign trade is state-dominated.

Whether or not, from these talks, any rules will develop that will make one feel that one is really in the old-fashioned competitive field in international trading or not, I don't know. This is very uncertain. I think it is very much tied in with what is going to be done as far as the less-developed countries are concerned, who are very seriously concerned from the point of view of their own situation.

DR. CLEM: Governor Herter, I think we have to stop. I want to say that I know I express the opinion of the group. This has been a very rare privilege for us this morning, and we are very grateful.

GOVERNOR HERTER: Thank you.