INTERNATIONAL TRADE

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HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY AND FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

SECOND SESSION

MAY 20, 1982

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

11-628 O WASHINGTON : 1982

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(Created pursuant to sec. 5(a) of Public Law 304, 79th Congress)

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FOREWORD

By Senator Roger W. Jepsen

On May 20, 1982, the Subcommittee on Monetary and Fiscal Policy of the Joint Economic Committee held a field hearing on international trade at Iowa State University in Ames, Iowa.

The choice of Iowa as the location was deliberate. Although only 23d by population among the 50 States, it ranks first in farm exports and seventh in exports generally. As a result, the audience represented a broad spectrum of practical and technical private sector achievement in foreign trade. That input contributed much to the day's success.

The purpose of the hearing was threefold: One, to focus attention on the political and economic importance of increased multilateral trade; two, to discuss challenges facing both Government and private sector in the international economy, and three, to define new approaches to foreign trade for American producers and untapped markets for their goods.

Eleven top policymakers from industry, the administration, and the foreign delegations of our principal trading partners—Japan, the European Economic Community, the People's Republic of China, and the Soviet Union—delivered brief remarks on the more pressing issues in international commerce. Informal discussion of each talk followed. While sharp differences of opinion marked the debate, it was constructive rather than adversarial. Much common ground was uncovered. It is hoped that the experience will lead to better communication in the future.

Four areas received particular attention: economic growth, the politics of international commerce, the role of Government in export promotion, and the competitiveness of U.S. products in world markets. A summary of the conclusions reached by the conferees follows.

ECONOMIC GROWTH

Every country produces certain goods and services more efficiently than others. Prudent resource allocation demands that the limited labor, capital, and raw materials of each economy be used where economic benefit is greatest. Surpluses are exported to countries which suffer a comparative disadvantage in the production of that good or service. The foreign currency received from such transactions is then used to import goods and services from countries which enjoy a comparative advantage in their production. Each economy operates at maximum efficiency by producing the most of what it produces best. The material condition of all nations is improved.

Tangible evidence of this is not hard to find. India imports 56 percent of its petroleum, Nigeria imports 100 percent of its automobiles, Saudi Arabia 55 percent of its labor, Japan 45 percent of its food, and the United States 60 percent of its shoes. Self-sufficiency would be either prohibitively expensive or impossible. However, the advantages of international commerce still remain largely untapped. Improved technology, communication and shipping now sharply define the comparative advantages of individual economies. Continued economic growth depends on more fully exploiting those strengths. The allocation of limited resources to inefficient production (through subsidies, favorable tax treatment, or other methods) costs dearly.

However, absolute free trade confronts practical limits. The speakers at the conference focused on those limits.

THE POLITICS OF INTERNATIONAL COMMERCE

The political relationship between different countries was the most controversial limiting factor addressed. Three aspects of it were discussed in detail.

The first was national security. Because military conflict disrupts international commerce, prudent national policy requires that a domestic supply of essential goods be sustained despite the severe costs to general welfare. There is little disagreement on this point; certain industries—merchant marine, steel, petroleum, and others—in every nation must be protected. Unfortunately, the national security justification for tariffs and other travel barriers is often used indiscriminately. In most cases pure economic and political self-interest is evident. The deception invites retaliation, and everyone loses.

The second issue is the use of trade sanctions to promote foreign policy initiatives. The 1980 grain embargo and the recent restrictions on Soviet pipeline equipment are two cases in point.

History and commonsense teach us that sanctions work only when alternative suppliers are not available. If this condition is not met, the sanction hurts only the country which invoked it. The two cases mentioned above are examples of just such a situation. The Soviet Union found alternative sources for both its grain—Argentina, Australia, and Canada—and machinery—Japan and Europe. The sanctions were singularly ineffective. However, American farmers and workers paid dearly. Agricultural surpluses and unemployment were immediate short-term consequences. More serious is the potential effect on future transactions. Because the United States has shown itself to be an undependable supplier, any nation will think twice before doing business with us again. We have permanently lost significant market segments in the world economy.

Embargoes and boycotts are effective foreign policy tools only if they work. The United States must exercise extreme caution in their use. The price of failure is high.

THE ROLE OF GOVERNMENT IN EXPORT PROMOTION

The General Agreement on Trade and Tariffs (GATT) has gone a long way toward opening world markets. Direct tariffs are now strictly regulated. However, significant barriers to foreign entry still exist in every country. Discriminatory, quality-control standards for imported goods, preference to domestic suppliers on Government contracts, quotas, and unfair licensing requirements are some of these nontariff obstacles. They deter international competition just as effectively as the measures covered under GATT.

Similarly, the subsidization of export goods distorts efficient allocation of resources in the world economy. Below market loans to foreign buyers, dumping and domestic price stabilization programs place unsubsidized producers in an inferior competitive position. American companies are particularly hurt in this respect.

The representatives from foreign governments at the conference justified certain nontariff barriers on domestic political grounds. For example, agriculture has a disproportionate representation in Japanese Government and basic industries in the Economic Community—steel, automobiles, and high technology—employ a large percentage of the working population. Radical structural changes in the economy must take place before the distortions can be corrected. This is an admittedly slow process.

Officials from the administration and the private sector replied with one voice. All rejected the idea of retaliatory measures. Reciprocity would escalate rather than diminish the problem. The solution lies elsewhere. For too long, the United States has been diplomatically nonaggressive in trade relations. Time and time again we have given concessions to our trading partners and received nothing in return. This is no longer an affordable policy. The office of the U.S. Trade Representative and the Commerce Department must rigorously enforce existing agreements and where unequal treatment between American and domestic goods exists, they must demand purity. While the administration has taken steps to put this new approach into practice, much remains to be done.

More vigorous diplomatic efforts are necessary but not sufficient. A more active role by Government in the promotion of American goods overseas is also indicated. The marketing programs developed by the embassies of other countries make ours look primitive by comparison. The administration has reversed past policy of having our Embassy personnel remain detached from commerce and has launched major efforts to find foreign markets for American goods, but these efforts do not match those of our competitors. Increased emphasis in this area is called for. Agricultural sales are particularly important. As the world's most efficient producer of farm products, we can ill afford to let our Government play a passive role in foreign trade.

COMPETITIVENESS OF U.S. PRODUCTS IN WORLD MARKETS

For the first 50 years of this century, the United States domineered international commerce. The past three decades has seen that preeminent position gradually eroded. While slow application of new technologies, steel, automobile, and other basic industries, a primary emphasis on domestic markets and failure to adapt operations to the specific demands of world markets explain some of this failure, Government regulation remains the overwhelming problem.

As discussed earlier, the governments of other countries assiduously promote their domestic production overseas. Preferential tax treatment, product development subsidies, low cost loans, large commerical offices and government financed trade fairs are high budget priorities. By comparison, the efforts of our Government are negligible. In fact, many laws governing the foreign transactions of American companies actively discourage overseas commerce. Three specific areas were discussed in detail.

First, antitrust statutes and the Gless Steagal Act effectively prohibit export trading companies. Unable to combine their resources in a joint export venture, small companies in a given industry are often shut out of competition in world markets. Substantial startup costs and overhead make individual efforts unfeasible. Similarly, the exclusion of banks from ownership of any commercial venture closes off a primary source of financing.

The Export Trading Company Act of 1981 goes a long way toward resolving these problems. Its imminent passage will allow small businesses the opportunity to enjoy the economies of scale necessary for successful international enterprise. The legislation is long overdue.

Current laws covering boycotts and bribery in international commerce is a second concern. While their intention to insure proper business practices by American companies overseas is appropriate, practical effects have been disastrous. The statutory language is so complex and ambiguous that legitimate overseas expansion is frequently foregone. American companies stay out of many markets simply because the implications of the law for those areas are not defined.

The Foreign Corrupt Practices Act is an effort to clarify the situation. Significant criminal and civil penalties for improper conduct remain. However, the definition of such conduct is clearly spelled out. A serious disincentive to foreign trade has been removed.

A final problem is the taxation of expatriot American workers. The United States is unique among its trading partners in taxing the foreign earned income of its citizens. Given that every American working overseas generates 20 new jobs at home through export sales, increased shipping demands, spare parts, and other secondary effects, this policy is ill conceived. The tax burden encourages American companies to use foreign employees or to withdraw from certain markets entirely. This means lost contracts, fewer exports, and diminished domestic employment.

The Economic Recovery Tax Act of 1981 substantially reduced these costly penalties but total elimination of the tax remains imperative.

The most serious obstacles to American competitiveness overseas is right here at home. Laws and regulations which discourage international commerce without any compensating positive effect are unfortunate. The United States can compete effectively throughout the world. The Government simply needs to remove certain gratuitous statutory barriers. Failure to do so will have serious long-term implications for employment, productivity, and growth.

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INTERNATIONAL TRADE

THURSDAY, MAY 20, 1982

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

The subcommittee met, pursuant to notice, at 9:30 a.m., in the ballroom of the Memorial Union, Iowa State University, Ames, Iowa, Hon. Robert Lounsberry (Secretary of Agriculture of the State of Iowa) moderator.

OPENING STATEMENT OF HON. ROBERT LOUNSBERRY, MODERATOR

Mr. LOUNSBERRY. Good morning, ladies and gentlemen. We have been standing by. Senator Jepsen had to work late last night voting on the budget. Every vote is crucial.

He wanted to be here in the worst way. He was hoping to be here in time for the luncheon. It now appears that he will not be able to make it today, and so I am going to have to be a poor stand-in for him. But I will tell you, we do have him on the phone, and we would like to hear from him at this time. We hope this comes through in good shape.

Senator, are you on?

Senator JEPSEN. Good morning. You are breaking in and out. Can you hear me?

Mr. LOUNSBERRY. Yes, Senator we can hear you.

OPENING STATEMENT OF SENATOR JEPSEN, CHAIRMAN OF THE SUBCOMMITTEE ON MONETARY AND FISCAL POLICY AND VICE CHAIRMAN OF THE JOINT ECONOMIC COMMITTEE

Senator JEPSEN. Good morning! Welcome to Ames, Iowa.

I wish to thank all of you who have traveled many miles to share your thoughts and ideas. I wanted to listen to your thoughts about our Nation's world trade problems and underscore some of my interests in seeing that free trade is fostered and promoted.

We're in the midst of a budget battle out here in Washington. The Senate was in session late last night, and by all predictions this morning, we're going to be in for the entire night tonight.

It is paramount to economic recovery in this country that we continue the necessary repairs and keep moving in the direction that we started in 1981.

We have got those that are arguing that what we need is some tight fiscal money policy, and tighten spending with Government funds, and we need to loosen up and turn loose the money machine on

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a military basis and have the Feds put a lot of money into the economy, and that philosophy is slowing a lot of things down here.

All of us agree that we have got to do a better job, and be more prudent spending Government funds. There are a lot of us, though, that don't agree that we need to start the pump winding now and pump a lot of money into the economy. This has been done in the past, and all it has caused is increased inflation and subsequently higher interest rates.

The whole world is watching us, not just the people in the United States, in this battle that we are having here.

I had to stay here, and we will hope that we come up with a prudent and a sound fiscal budget before the next 24 hours is over.

You are all here in Iowa today to talk about trade and especially about Iowa's role as an exporting State. Major exports to reliable markets are an essential ingredient for a healthy Iowa economy.

Our State last year reclaimed its No. 1 ranking as the Nation's top agricultural export State. Nearly $4 billion flowed from Iowa's farms.

You know, we led the Nation in export of feed grain, soybean products, and red meat.

President Reagan removed a cloud from all of us concerned with agriculture last March when he publicly renounced the use of a singular grain embargo as a unilateral tool of foreign policy.

The President's statement at that time was a positive signal to American agriculture and to the world. It was a signal that the United States is making a vigorous commitment to the expansion of our farm exports.

But the President's statement was more than just that.

It was a commitment to devise a national agricultural trade policy to restore our reputation as a reliable supplier and to enable our farmers to do some confident financial planning.

This national policy we are developing has, as its core, the recognition that the use of food as a foreign policy weapon tends to result in irrevocable harm to the U.S. farm economy, with little or no foreign policy gain for the United States.

So the formulation of a national agricultural trade policy is vital to the growth of our farm exports.

Hopefully, one thing this conference will do is to yield some fresh ideas that we can use as we shape our trade future.

Now, I would be remiss if I didn't say, with a great deal of enthusiasm and pride, that farm exports are not the only game in town in Iowa.

Iowa ranks 10th nationally in total exports. The city of Cedar Rapids exports more products per capita than any other city in the Nation, and we have got some of the world's best right there in Ames today to talk with us about how we can build on our record and to help us come up with some new and creative ways to expand Iowa's exports.

I hope it is obvious to the representatives of the various nations visiting us today that we want to sell more of our products to their people, and that it is in both of our best interests to do that.

Again, I thank everyone for coming. I wish you a very interesting and a very profitable meeting, and to our friends who have come a long way and to our friends who have flown there from Europe, welcome again to Iowa. Have a good day!

Mr. LOUNSBERRY. Thank you very much, Senator. [Applause.]

You just heard the Senator say, on the telephone, that he is unable to be with us because of several critical votes, both last evening and those that are coming up.

We are going to be on a very tight schedule. Our first speaker has to catch an early plane back to Washington.

We will begin with a set format, though we will depart a little bit from the format as we proceed.

Before introducing our first speaker, I would like to make a few remarks.

I have watched a State which ranks only 23d in population become No. 1 in exports this year, as the Senator said.

More importantly, I have seen some of this country's outstanding trade initiatives hatched right here in this State. What we call 480, involving credit funds and barter, was brought into fruition.

We do have a long tradition in areas of practical innovation and creativity in the State of Iowa.

Speaking for both myself and the Senator, I hope that tradition will be extended here today with your participation in this program.

I know all of you here join me in welcoming the foreign dignitaries and administration officials and private businessmen who have taken time from their busy schedules to testify today and to receive input from the people of Iowa.

To all of them, our sincere thanks.

Now, my first responsibility is the distinct honor to introduce the first speaker, Richard Lyng, Deputy Secretary of the U.S. Department of Agriculture.

Mr. Lyng has had very broad and lifetime experience in agriculture. He served as director of agriculture in the leading farm producing State, California, before going with the USDA, and he has been active and certainly a staunch and vigorous defender of all interests of American agriculture and our country's farmers.

We are all looking forward to hearing his remarks here today, and so without further ado, Deputy Secretary Lyng. [Applause.]

STATEMENT OF RICHARD E. LYNG, DEPUTY SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. LYNG. Thank you for inviting me to join you today. It is certainly appropriate that here in Iowa, the Nation's No. 1 farm export State, you should have a conference like this, a conference which can play a vital role in exploring new ideas we can use to boost U.S. agricultural exports and put some vigor back into the farm economy. When Senator Roger Jepsen invited and urged me to participate here, I accepted immediately, both because of my high respect for him and because farm exports are so important, not only here in Iowa, but throughout the entire Nation.

All of us at the U.S. Department of Agriculture, from Secretary of Agriculture John Block on down, are totally aware of the need for us to do everything we possibly can to maintain and expand exports. Let me start out by giving you an update on the work we've already done at USDA to promote exports and discuss a few of the new ideas we've been looking at recently. What we will hope to get from you and the other speakers here today is other views on that work and those ideas. In particular, I am anxious to hear from representatives of the private sector because it's this administration's view that closer cooperation between private industry and government is the absolute key to realistic and workable ideas that can foster growth, not only in agricultural exports, but in the entire economy.

So what have we done for exports at USDA and what are some of the new ideas we have been looking at?

Let me take a few minutes to give you a broad overview of the actions we've already taken to boost exports. Many of these have focused on trade policy and access to foreign markets.

First there was the removal of the embargo on agricultural sales to the U.S.S.R. That embargo clearly hurt producers, especially here in Iowa, more than it hurt the Soviet Union. We'll be meeting with the Russians in Paris again in a few days about the current grain agreement. It's a routine meeting, but the first with the Soviets since the Polish crisis. We are talking again. Since the embargo was lifted, the Soviets have purchased nearly 15 million tons of U.S. grain.

Next we began a new series of market promotion efforts, including the dispatch of high-level sales teams to 14 developing countries with good growth potential in Africa, Latin America, and Asia.

We have had a series of meetings with the Japanese to get them to liberalize their import quotas which still cover 25 agricultural items. We have also made a concerted effort to get the EC to abandon its unfair trade policies—the import restrictions and export subsidies—which have hurt our sales of wheat and other commodities. The sugar, pasta, poultry, and canned fruits and raisin industries have brought section 301 complaints against EC trade practices in the past year, adding their weight to the earlier protests by the citrus and flour industries.

We also have had new cooperator activities in China and West Africa and new agricultural trade offices in Beijing, Tunis, and Lagos. We are looking forward to the opening of new cooperators' offices in Beijing by the American Soybean Association, U.S. Feed Grain Council, and U.S. Wheat Associates.

I think there has been more effective use of export credit, including the maximum possible use of an authorization of $2.5 billion for CCC credit guarantees and more careful targeting of both commodities and destinations to insure maximum effect.

There's been new impetus to work with the agriculture departments of the various States, including a major international food show in Atlanta next spring. We hope to see this show bring $100 million more in annual export sales of processed food products.

President Reagan took a major step on March 22 to restore importer confidence in the United States as a reliable supplier. Reliability has been an important concern for a number of our overseas customers. In a speech to agricultural editors, the President pledged that there would be no return to the stop-and-go export policies of the past several years.

He said flatly that no export restrictions will ever be imposed because of rising domestic prices, and he repeated his pledge that the only way a farm export embargo would be imposed would be in the context of a broader embargo mandated by an extreme foreign policy situation.

The President said:

> Farm exports will not be used as an instrument of foreign policy except in extreme situations and as a part of a broader embargo. Agricultural products are fungible; that is, they are easily interchanged for the same commodity from other nations. For this reason, the embargo of 1980 was almost totally ineffective, yet it caused great economic hardship to U.S. agriculture. We will not repeat such an action.

Thus, President Reagan became the first American President to flatly eliminate the possibility of any embargo for economic purposes. He went as far as any President safely could go in rejecting the embargo as a political instrument.

We met with the other major wheat exporters in Ottawa last month. We pointed out that the United States has taken decisive steps to reduce production to help prevent a further decline in commodity prices. We urged the other exporters to take parallel action, including the elimination of export subsidies.

We also made it clear that other measures might be needed if our competitors take advantage of our actions to increase their production and exports.

These are some of the steps we have taken to build agricultural sales overseas. At the same time, the Congress has shown more interest in, and more support for, agricultural trade than at any time in my memory.

The Agriculture and Food Act of 1981 contains authority for export subsidies, if necessary, to counter unfair trade practices of other countries and it established an, as yet unfunded, export credit revolving fund to stimulate export sales.

The Senate and the House have passed resolutions protesting the European Community's proposal to impose a tariff quota on imports of corn gluten feed.

Members of the Congress have met with officials of both the European Community and Japan to urge an end to their unfair trade practices.

That is a brief and incomplete overview of some of the positive steps we have taken on the export front. As I suggested earlier, we are open and responsive to any and all ideas on how to do the export assistance job better. We are actively promoting some of the new ideas you've heard about to expand overseas sales and we are looking into the feasibility of a number of others.

Secretary Block and the administration have been strong backers of the export trading company legislation pending on the Hill right now. The virtue of ETC's is that they can help us compete more effectively with countries like Japan and South Korea whose commercial and banking activities are more closely fused than ours.

In agriculture, we feel that ETC's can help supplement sales of bulk commodities with more exports of value-added products like processed foods. Sales of value-added products have been running $12 to $13 billion a year and there is definitely potential for more. Sales of these products not only help the farmer who provides the raw materials, they also create other jobs. If we add even $1 billion to these sales, we can generate 31,000 new jobs.

One of the ideas that has been a topic of discussion lately in the export field is bartering. Bartering by the Soviet Union, Argentina, and Iran, and Thailand's use of bartering in its rice trade have brought this idea to the forefront recently.

Since last March, we have been cooperating with several other Government agencies in exploring the merits of bartering CCC stocks for petroleum and strategic and critical materials. At this time, a viable barter program of this type does not look too promising. We will continue to explore every barter opportunity, but also would encourage private sector initiative in this area. Perhaps some good, old fashioned "Yankee trading" can be of value in the expansion of barter in our agricultural foreign trade.

We are also exploring new ideas in the credit area. The Department realizes that our competitors, particularly the EC, can offer very attractive credit arrangements for buyers.

While relatively new, GSM-102 credit guarantees have proven themselves to be an effective tool in finding new markets for our farm products and maintaining our market share in the face of stiff competition. Thus far in fiscal year 1982, these credit guarantees have been extended to importers in 21 countries for purchases of about $2 billion in U.S. agricultural commodities.

We are assessing the potential benefits of additional export incentive programs against the likely cost to the taxpayer.

Financing exports is a critical area where we need to explore new possibilities, but we also need new ideas on improving the way we ship U.S. farm products. How well we service our customer's transportation needs is often every bit as important as financing.

The Department's Office of Transportation has a number of ongoing projects aimed at improving the shipping of our agricultural exports—including improved containers for transporting cattle, fresh vegetables, and other farm products. An idea that has received considerable attention recently involves new methods for shipping grain from inland points like Iowa to Mexico. One method would be to put loaded railcars on barges and float them to Vera Cruz and Tampico and re-rail the cars there for movement to other Mexican destinations. Another innovation would be to place barges loaded with grain on the decks of oceangoing barges for offloading at Mexican seaports.

Both ideas have considerable merit because they would reduce costs and allow delivery at shallow draft ports. An additional benefit is that they would help shippers avoid the railcar congestion at the Texas border. These kinds of ideas will help us keep U.S. grain competitive in both Mexico and Central America.

There are no instant solutions to the problems we face in agricultural exporting today. No massive and expensive Federal program will insure us of stronger exports. But there are a host of smaller and more practical steps we can take to build our overseas sales.

I've mentioned only a few of the things we have been doing and exploring at USDA. I am looking forward to discussing them with you and hearing about other steps we can take in the drive to boost overseas sales. It's only by sharing and testing out new ideas that farmers, agribusiness, and the Government can make the choices that spell success.

Thank you. [Applause.]

Mr. Lounsberry. Thank you, Mr. Lyng.

Originally we had hoped to have some time to ask Secretary Lyng some questions. We must limit it now to about two or three because he absolutely has to catch a shuttle bus here in about 5 minutes.

Jim West, on our remote microphone was going to try to help spot the questions for me in the back of the room. It is very difficult for me to see up here with the lights on.

I do want to thank Secretary Lyng for attending this morning's hearing on international trade.

We have time for just a couple of questions, so Jim, if you can catch someone out there.

Mr. West is Senator Jepsen's senior staff member in charge of the offices here in the State of Iowa.

Does anyone have any questions of the under secretary?

A VOICE FROM AUDIENCE. I would like to ask Secretary Lyng about 52 million tons of corn down in Texas. Is that a dump on the market, or is that relatively——

Mr. LOUNSBERRY. He asked about the 52 million. I thought it was more than that.

Mr. LYNG. I am not sure how much it is. We wish we didn't have it.

Immediately after the embargo, in 1980, the Government bought roughly 300 million bushels of corn. There is some in storage in Texas, which is kind of out of position. It is out of the line.

We have not offered any of this for sale except a relatively small quantity. We haven't had any new offers lately, but we sold—made a few sales of—I believe there were three or four or five.

At the present time we have no plans to dispose of any of it. With the present corn market, in spite of this pressure from feeders in that area, we don't want to do anything to further depress the market. It will not be for sale in the near future.

A VOICE FROM AUDIENCE. Mr. Lyng, you made reference to the possibility of exchanging CCC owned stock of corn under barter arrangements, if we applied some good, old "Yankee trading." From my understanding, CCC stocks cannot be sold for less than 110 percent of the trigger price on the corn reserved.

If you were successful in such a barter arrangement, wouldn't the corn have to be priced at that level?

Mr. LYNG. You misunderstood me. I was not suggesting that we use CCC stocks for this. The only place we would consider using CCC stock for barter would be where we were moving the commodity—this would have to be covered with the Government, if we got involved with CCC stocks.

We talked a little bit about using some of this where they currently do not consider, say, corn, for example. We have also thought about this in using nonfat dry milk or cheese in exchange for a strategic commodity, but the Government is limited to bilateral transactions on barter.

My understanding is that the commercial barter works better. When we get three or four countries, or something, that works out as a very complicated trade.

Very frequently there are currency restrictions in one of the countries where people don't have hard currencies, and we would like to encourage that to be done only with private grain sales or private commodities.

We will open doors and let people meet. It is a tough game, but still we are considering it.

Mr. LOUNSBERRY. Mr. Lyng, we really want to thank you for being with us this morning. I know it was a very difficult situation last evening.

They got caught in some real stormy weather. It looks like the weather is getting bad now. It may be difficult to fly back to Des Moines to catch the plane. That's the reason for this hurry-up.

Now, the rest of this morning we plan to have our guest speakers give their prepared remarks first, and then we will have a panel discussion with all of them after they finish here, and allow as much time as we can for questions and answers. So keep in mind and jot down any questions you may have of the next few speakers here that I am going to introduce this morning.

The next witness is Richard Heldridge, who is currently director-designate of the Export-Import Bank.

Mr. Heldridge is a native Iowan and was raised in Sioux City. His father was in the livestock commission business.

He graduated from the University of Iowa in 1940 and was in the banking business during World War II, after obtaining that degree.

We appreciate your coming to be with us today. [Applause.]

STATEMENT OF RICHARD W. HELDRIDGE, DIRECTOR-DESIGNATE, U.S. EXPORT-IMPORT BANK, WASHINGTON, D.C.

Mr. HELDRIDGE. My claim to fame is that I was in the same class in Sioux City with Ann Landers and Abigail Van Buren, all through grade school, junior high, and high school. [Laughter.]

Until recently I knew very little about the Export-Import Bank or the United States, and maybe some of you are in that situation today, so let me try to describe the Bank to you briefly.

Eximbank, through its various programs assists sales overseas:

One, by making direct loans;

Two, by issuing guarantees through commercial banks; and

Three, by insuring sales against commercial and political risks.

Eximbank is an independent agency of the U.S. Government. It is directed by law "to supplement and encourage and not compete with private capital. . . ."

The two principal ways the Bank fulfills its purpose are:

By offsetting foreign government subsidies; and by supporting sales that the private sector is unwilling to finance because of unacceptable risk or term requirements.

Although our role is minor compared to total exports, it is important because of the outer margin of the export business in which we operate.

In fiscal 1981, exports supported by Eximbank accounted for only about 8 percent of the total U.S. exports. In dollars, that amounted to $18.6 billion.

More significant, though, than dollars is the fact that Eximbank's financing of exports last year supported an estimated 521,000 jobs to produce the goods and services involved.

For Iowa in 1981, Eximbank assisted exports valued at about $16 million. That was not a very good record or performance by Eximbank, with total Iowa exports estimated at over $6 billion.

The private sector in Iowa and the Commodity Credit Corp. did very well, but I suspect there is a great deal more business eligible for Eximbank support. I personally would like to see Eximbank doing much more in the State where I grew up.

Eximbank is required by law to be competitive with export credit subsidized by foreign governments and, at the same time, to try to be a self-sustaining organization. That is a large order when interest rates are high and foreign export credit subsidies are large.

Eximbank's average cost of money has for some time exceeded our average interest rate on loans receivable. The bank does not receive appropriations from taxes.

Our lendable funds include original capital and retained earnings of more than $3 billion, and borrowed funds as necessary.

The high borrowing costs have placed the Bank in a negative position. We will be operating at a loss this year for the first time in the Bank's history.

Obviously, the Bank cannot operate at a loss forever, but we can do so temporarily, and like everyone else, we are looking forward to lower interest rates.

The fact that Eximbank has operated at a profit through its history is especially vital to the Bank today, when we are not making profit, but must continue to meet foreign competition.

The earnings retained as a result of prudent management policies in previous Eximbank administrations provide the means to be competitive without having to ask the Congress for appropriated funds. However, the fact that the last administration did not set loan interest rates at appropriate levels will have a detrimental effect on the Bank for several years.

Eximbank is a lending, not a spending agency, which has paid more than $1 billion in dividends to the Treasury.

This administration is trying to restore greater viability to the Bank, and to increase its ability to compete by adjustments to meet the changing needs.

The Bank has been a flexible institution in two ways:

First, it has adjusted programs as needed. Old programs have been changed or phased out. New programs have been created.

The Bank started out in 1934 offering only direct loans. Then in 1962 the commercial bank guarantee and insurance programs were installed.

Direct loans have varied through the years from 100 percent of export value to much smaller percentages.

Financial guarantees were devised to stretch Eximbank's direct credit capacity and to encourage large participation by the private sector in long-term export loans.

Other examples might be cited, but these illustrate the point of program flexibility.

Second, Eximbank has been flexible in allocation of credit resources. This is illustrated by a reduction in the amount of participation in each loan in order to spread the use of resources to a greater number of transactions.

Also, the Bank has applied its resources into the markets which faced the toughest competition.

For example, in financing aircraft, Eximbank targets its direct loans for the types of airplanes which face head-to-head foreign competition. We do not offer direct loans for some types of U.S.-made aircraft because they do not have comparable types of competition.

I referred to the subsidized export credit available from other countries. It is estimated that $5 billion in export credit subsidies was provided for foreign exporters by their governments. That was in 1980, and we think even more than that in 1981.

Eximbank and other involved agencies of the United States have been negotiating for years to eliminate interest rate subsidies and other governmental support that distort free market competition for export sales.

This effort has been conducted largely through the Organization for Economic Cooperation and Development in Paris, known as the OECD.

Our chairman and a delegation of other U.S. representatives have recently returned from an OECD meeting at which considerable progress was made.

Subject to final agreement by June 15, interest rates were increased to a minimum of 12.25 and 12.5 percent, according to term, for export sales to the most developed countries, and to 11 or 11.6 percent in the intermediate countries; and for export sales to the less developed countries, the interest rate remained at 10 percent.

Also, several countries were reclassified from "less developed" to "intermediate" because of increased per capita gross national product.

Several other changes are suggested. I will not discuss them any more because these have not been confirmed, but the important point is that the proposed increase in interest rates in the middle and the highest developed countries will enable Eximbank to be more competitive.

Eximbank financing support has been primarily to manufacturers of capital goods and then to agriculture.

In agricultural loans we are not in competition with the Commodity Credit Corporation. We supplement the CCC and cooperate with them.

Let me briefly describe our basic programs for agricultural commodities and agribusiness products.

Eximbank financing helps facilitate exports by putting cash in the hands of the exporter and enabling the buyer to pay later.

Eximbank provides financing support for agricultural commodity exports through credit insurance from the Foreign Credit Insurance Association known as FCIA.

FCIA is an association of Eximbank and 50 insurance companies, with Eximbank serving as reinsurer of all political risk and some commercial coverage.

Agricultural commodity support is for short term, usually limited to 180 days, but up to 360 days as an exception for bulk agricultural commodities. Terms including letters of credit, documentary drafts or open accounts may be covered.

Eximbank and the FCIA also offer a credit insurance feature to facilitate increased commercial bank financing of bulk agricultural commodity exports.

Under this plan, short-term commercial and political risk insurance coverage is available to U.S. commercial banks to support exports of bulk agricultural commodities sold on irrevocable letters of credit issued by foreign banks, with repayment terms not exceeding 360 days.

To permit FCIA to respond promptly to U.S. banks' requests for this special coverage, FCIA and Eximbank have prequalified numerous foreign banks that may issue the letters of credit.

The newest weapon in our arsenal for agriculture is a plan to provide credit insurance through FCIA to the banks for cooperatives, which now have legal authority to finance exports.

Negotiations are underway on a multimillion dollar policy. Eximbank and FCIA would share in the risk of the policy.

If any of you are potential new exporters of agricultural commodities, meat products or consumer durables, here is how you can get insured for short-term credit extended to your buyers.

You may contact the Foreign Credit Insurance Corporation, FCIA, in Chicago. The telephone number is 312–641–1915.

FCIA will want to see your last three annual statements, and to know the markets you plan to ship to in the next 12 months.

They will need a brief synopsis of your experience, or of the person responsible for your exports business.

FCIA will obtain a Dun and Bradstreet report, and contact your banker for further credit information.

After this information is analyzed, FCIA will give you a quotation of the premium cost, and the quotation is free.

In addition to credit insurance for exporters, Eximbank also offers guarantees to commercial banks for financing bulk commodities on terms up to 360 days, insurance and guarantees.

Exporters of agricultural commodities covered by credit insurance or bank guarantees are required to take only 2 percent of the commercial risk.

For other products, small businesses take 5 percent of the commercial risk, and larger companies take at least 10 percent of that risk.

Exports of dairy and breeding cattle may be covered under the medium-term guarantee and FCIA credit insurance programs.

Iowa exporters who sell capital goods such as road building machinery and agricultural equipment can use our medium-term programs.

Under the medium-term commercial bank guarantee program and the medium-term FCIA insurance program, suppliers or commercial banks provide the loans to the foreign buyers. Eximbank and FCIA provide the guarantees of the credit insurance to cover substantial portions of the commercial risk and all of the political risk.

A typical transaction under these programs requires a 15 percent cash payment by the buyer, with the exporter retaining at least 10 percent of the commercial risk.

Repayment terms may run from 181 days to 5 years, depending on the value of the commodity.

A variety of goods have been financed under each of these programs, such as grain storage facilities, handling equipment, feed mills, water pump systems, tractors, trucks, and so on.

As I have pointed out, most capital goods exports and related services for agricultural projects are financed under the medium-term program; however, large projects of $5 million or more may be eligible for a direct loan from Eximbank.

Under the direct loan program, a minimum cash payment of 15 percent would be required. For the 85 percent left to be financed, Eximbank would provide a direct loan for part of the financing and private lenders would provide the balance.

The repayment term would normally be 5 to 10 years. We suggest direct contact with our bank or your commercial bank for information regarding the large direct loan program.

We are now offering yen financing under the Eximbank financing guarantee program. This means that a qualified foreign buyer of certain U.S. exports may choose to finance in yen because it is cheaper, or one of several other foreign currencies, and that buyer could receive the Eximbank guarantee.

At Eximbank we are trying to make it easier and simpler for exporters to use our services. I believe there is a growing awareness in this country of the importance of exporting.

Leaders in the private sector and appropriate Government agencies, such as Eximbank, must cooperate to develop a full national consciousness of the opportunities in export markets.

I hope the people in Iowa will participate in this effort by using Eximbank more effectively.

Thank you very much. [Applause.]

Mr. LOUNSBERRY. We will be calling our speakers on this morning's program back for a panel discussion at the conclusion of their prepared remarks.

The third speaker this morning, although he was born in Kansas City, spent a lot of his life in Fort Dodge, Iowa. He spent his entire life in the grain industry.

B. J. (Jerry) O'Dowd has a broad background in all areas of the grain trade, although he is an expert in marketing.

Jerry, welcome to today's hearing. [Applause.]

STATEMENT OF B. J. (JERRY) O'DOWD, PRESIDENT, AGRI INDUSTRIES, DES MOINES, IOWA

Mr. O'DOWD. Good morning, ladies and gentlemen. Thank you, Mr. Lounsberry.

I couldn't help but notice the resumé that you were handed as you checked in this morning. On me it said I retired from Continental Grain Co. I told an old neighbor of mine, Wayne Fox, that I didn't retire, but I am kind of tired.

I am sure that my schedule is not as rigorous as a lot of our Government officials. However, I left Dallas, Tex. yesterday morning at 7 a.m., attended two meetings in Kansas City and a luncheon, gave a talk, flew back to Amarillo, Tex., last night, gave a major address in the Panhandle, and returned to Des Moines at 2:30 a.m. this morning. So we do do a little work in the private sector also.

I would like to thank Senator Jepsen, even though he isn't here this morning. I am pleased that he can pick his priorities, but I do appreciate the fact that he sponsored this subcommittee hearing of the Joint Economic Committee in Iowa.

I know that you and your associates are going to hear a lot about the complex problems today. You may conclude that nothing is going right, but I want to assure you that all of us in Iowa appreciate having aired in our State both the difficulties and the opportunities of exporting U.S. products.

After all, nothing that really is worthwhile comes easy, and expanded exports of American production is extremely worthwhile.

While many of you here are familiar with our company, other members of this subcommittee are not, so I would like to take just a few minutes to tell you about AGRI Industries.

AGRI Industries is a regional grain marketing cooperative. It is owned by 334 country elevator cooperatives in nine States, 278 of which are in Iowa.

Those country elevator cooperatives in the States of Kansas, Iowa, Minnesota, Illinois, South Dakota, Nebraska, Wisconsin, Texas, and Louisiana, are owned by some 135,000 farm families, which has got to be some of the most productive farmland in the world.

AGRI Industries operates a grain terminal in Des Moines, four barge loading terminals on the Mississippi River, two soybean processing plants and a recently acquired export facility on the Houston ship channel in Galena Park, Tex.

In our past fiscal year, AGRI Industries did approximately $3 billion worth of business, and marketed almost 600 million bushels of grain.

Now, about 70 percent of the grain we market moves into export channels. Most of last year's volume was corn and soybeans produced in the upper Midwest; however, in the last month, AGRI Industries leased five very large grain terminals in Texas, and we expect to market large quantities of wheat and milo through these new locations.

What I would like to discuss today is the creation of a new kind of relationship in the United States between the private grain companies of this Nation and our Federal Government.

I think that the record shows conclusively that the grain marketing system in the United States is the very best in the whole world. It markets more grain at a lower price per bushel in the system than any other nation on the face of the Earth.

The U.S. grain marketing system—and I am including both large family and private companies, privately held companies, small independent firms and the Nation's cooperatives—move grain over vast distances using river, rail and truck freight from thousands of origins to hundreds of destinations.

It has forward marketing capacity and is able to smooth out peaks and valleys of supply and demand to provide reasonable price protection to both the producer and the consumer.

It is indeed a superb grain marketing system. I have worked with it all of my life, and I still marvel at its efficiency.

Having said that, though, let's talk about some of the problems the U.S. grain industry is experiencing in the highly competitive world environment.

For practical purposes, the U.S. grain industry is the only one in the world handling significant volumes of grain that operates solely on its own with no participation by Government.

In the nations with centrally planned societies, of course, the governments buy the grain.

In some of the nations with which we compete, there are nationally controlled grain boards who play a major role in export commitments, and the Japanese international trading companies, rapidly becoming a major force in global marketing, are provided financial aid at low cost by their government.

The so-called big grain companies of the United States—and I worked for many years within Continental Grain Co.—have vigorously opposed an increased involvement by our Government in the grain business, and it is fair to say that the rest of the industry, including the farmer-owned cooperatives, have supported the concept that Government should stay out of our business.

But in today's world, is that possible? And if it is possible, is it really desirable?

We have had grain embargoes in 3 separate years imposed by the U.S. Government for various reasons. That's Government involvement in grain exporting in the very worst possible way.

Every farmer in America, in fact every citizen in America, has been hurt financially by the Government's continually using the sales of U.S. grain overseas as a weapon to achieve some kind of domestic or international policy goal.

So our Government, despite all the assurances that it won't, gets into our business once in a while.

Isn't it possible, therefore, that there is a helpful role our Government can play in the exporting of grain throughout the world?

I think the whole issue deserves deep exploration. Meetings such as this are a step in the right direction.

What can our Government do to combat the protectionism that exists in the policies of some of the nations with which we compete?

High support prices paid to producers, the automatic accumulation of surpluses and those surpluses then being disposed of by Government subsidies of export sales continue to be a huge problem, and those practices are being carried out by enlightened nations, our friends and allies that run up the flag of free trade every morning and salute it vigorously. But they don't practice what they preach.

Certainly credit is another big problem for the private grain industry in these United States.

Our neighbor to the north just signed a huge long-term trade agreement with the People's Republic of China. Under the terms of that agreement, the PRC will pay 20 percent of the value of the grain at the time it is loaded, and the other 80 percent can be paid over a 12-month period at what we hear are extremely attractive interest rates.

Even the biggest of America's giant grain companies cannot compete in that kind of a credit arena.

There is a simply fantastic potential for sales of feed grain to some of the emerging nations, especially in Africa, but they need credit. They need credit for grain, and they need credit to construct the transportation and livestock infrastructure that is so sorely needed if dietary standards are to be raised.

As an alternative to paying farmers not to produce and accumulate huge inventories of grain to be financed and stored at an immense price, wouldn't our Government—wouldn't our Government be wise to provide liberalized credit for such nations? And I didn't say "give away".

It would seem to make sense, both from a hard business standpoint, as well as from humanitarian reasons.

Now, shifting slightly to exactly what kind of a relationship exists between the Government of Japan and the large international trading companies which operate out of this Nation.

Only about one-third of the U.S. grain being purchased by these companies is being shipped to Japan. The balance is being sold around the world, often at credit terms U.S. companies simply cannot match.

If the Japanese Government has concluded it is beneficial to provide low-cost funds to finance such operations, would it not be beneficial for our Government as well?

As a point of emphasis, the policy is that any nation ought to make it easy for the people of that nation to do what they can do best.

Clearly, one of the things Americans do best is to produce huge amounts of food at a very low cost. It is one of the very few endeavors where the United States still excels.

Insofar as the policies of this Nation do not provide encouragement to continue the high production of food for movement throughout the less fortunate parts of the world, those policies should and ought to be changed, and we may have to recognize that the current and historic relationship between the private grain industries of the United States and our Government constitutes a policy that prevents the American farmer from maximizing the benefits of his incomparable ability to produce enormous volumes of low-cost food.

Now, I wish I could outline for you a clear and cohesive program which would bring out a more productive relationship between the U.S. grain industry and our Government; however—and I am sure it will come as no surprise to you—I cannot; but perhaps it would help if we were to acknowledge that respect has been lacking on both sides of that relationship.

I think it is generally true that people in the grain trade think Government officials are inept, bumbling paper shufflers who couldn't even make it in the private sector.

Further, I think it is true that Government officials think that people in the U.S. grain industries are a bunch of crooks, who if they weren't watched, would steal the eyeteeth from the grain producers and consumers everywhere.

Obviously there isn't a whole lot of merit in either one of those conclusions. If a new or functional relationship is to be established between the grain trade and our Government to capitalize on current opportunities and cope with the complexities of world marketing, substantially more respect must serve as one of the foundations for this relationship.

Now, I promise you that I will try, both within the cooperative community and within the private company system where I once worked, to convince our industry leaders that Government is not our enemy; that Federal officials have dedication and talent to serve as useful partners in opening broader avenues of trade around the world, and maybe some of the Government people here can undertake to build just a little more respect for the grain trade among the decision and policymakers in Washington.

To sum up, I doubt there is any one big thing that can be done right now to give us a huge pick up in the volumes of U.S. grains flowing overseas. The only exception might be a dramatic and permanent improvement in relations between the United States and the Soviet Union and its satellites so it would allow us to tap what appears to be an enormous need in Eastern Europe.

I am going to talk to Mr. Nazarov at lunch today, and I hope I can convince him of this.

As I set off, I would go to Hades to sell U.S. grain if I thought the devil would buy it.

Certainly many of these things are beyond the capacity of anyone here, and we probably shouldn't spend time on it—I am talking about an improved relation with the Soviets—but the benefits would be huge.

What needs to be done, assuming I am right that no mammoth breakthrough is possible, is a lot of little things to expand the movement of U.S. grain overseas.

All of them will take a new level of smooth, selfless professionalism on the part of the trade as well as on the part of the Government.

Some of these actions that must be taken—for example, the financing of an agricultural infrastructure in the emerging nations—will not pay quick dividends. But those actions will be highly beneficial, nevertheless, to U.S. farmers, to the American economy and to everyone to understand the threat of unrest and turmoil anywhere in this world.

I would like to try to help in the creation of a form of partnership between the U.S. grain industry and our Government. You know, it is a dream, a philosophical concept, I will admit, but I have concluded that our industry and our Government, if they can't learn to work together better, are no match for the forces I see in other nations of the world.

I am willing to give it some time to see if it can work.

Before I close, I would like to pay special tribute to U.S. Agriculture Secretary John Block. While things aren't perfect, it seems to me John is really trying.

We are especially happy that he recognized the seriousness of the posture of the European community on the tariff and subsidy matters.

We know the administration has to look at other factors affecting relations between the EC and and the United States, but we certainly appreciate Secretary Block's strong insistance on movement toward free trade by the Western European nations, and we also appreciate the statements by Block and Seely Lodwick on the necessity for other grain-growing nations to try to cut production to compensate for the present burdensome supplies.

It would be a terrible injustice if U.S. farmers were asked to reduce grain production—for they really, really don't like to do that—only to have the improved supply/demand numbers work more to the benefit of competitor nations than to the United States

Secretary Block and his people appear to us to be standing their ground against the strong voices in the Departments of State and Defense, significantly better than has previously been the case.

Thank you, Senator Jepsen, even though you are not here. Thank all of you for your kind attention. Thank you very much. [Applause.]

Mr. LOUNSBERRY. Thank you, Mr. O'Dowd.

Ladies and gentlemen, our fourth speaker this morning comes to us from Moline, Ill. He is the top man of international sales for Deere & Co., which is Iowa's largest employer.

One nice thing about this man, I think, is he sees the value of education of children in Iowa. They come across the river to Bettendorf to go to school.

Hans Becherer has suggested that we might have time for just a very short stretch, if you want to stand up. He is a staunch believer in the fact that the mind will not restore more than the seat can endure.

Mr. Becherer, please proceed. [Applause.]

STATEMENT OF HANS BECHERER, VICE PRESIDENT, EXPORT TRADES, DEERE & CO., MOLINE, ILL.

Mr. BECHERER. Thank you, Mr. Lounsberry. Good morning, ladies and gentlemen.

Allow me a few comments concerning the company I represent in the event you are not familiar with Deere & Co.

John Deere is a manufacturer of farming and construction machinery, with worldwide headquarters located in Moline, Ill.

We have 11 U.S. factories located in Iowa, Illinois, and Wisconsin. We produce equipment in factories in nine overseas countries.

Deere has U.S. employment of approximately 50,000 people at this time.

Our fiscal year 1981 sales amounted to $5½ billion, of which $4.7 billion was accounted for by farm machinery. This makes us the largest farm equipment company in the western world.

Deere is ranked 65th in the Fortune magazine list of the 500 largest U.S. industrial corporations.

I am very pleased to be here in Ames to discuss with you a topic so vital to the people of this State.

May I begin by emphasizing that the fortunes of our company are closely tied to the welfare of Iowa workers and farmers.

Iowa has long been the most important manufacturing State for John Deere. More John Deere factories are located here than any other State, seven in five cities.

More John Deere capital has been invested in Iowa than anywhere else, including more than $900 million between 1971 and 1980, which was roughly half of the capital expenditures of Deere & Co. during that period.

More John Deere people work here than anywhere else, approximately 27,000 men and women, enough to make John Deere Iowa's largest private employer.

Unfortunately, economic conditions have forced us to lay off a considerable number of employees.

Moreover, many of those who are working have had their salaries frozen and their bonuses canceled. This is obviously a matter of great concern to us, and ties in directly with the topic before us for discussion this morning.

One of the major economic challenges for the future is in the area of international trade, and new ideas and new markets are essential toward the expansion of that trade.

Before I deal more specifically with the questions suggested for my consideration this morning, I would like to make several prefatory comments.

First, I would like to indicate that I speak both from the point of view of our customers in Iowa, most particularly the farmers of this State, and from the point of view of the company itself.

The well-being of our company and our customers is closely associated.

My second observation is that we must realize that we in Iowa sell both our manufactured products and our agricultural commodities in an international market where all of these products can be purchased throughout the world from providers other than the United States.

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In order to compete successfully in this highly competitive world market, we seek a partnership with our Government that provides support, not impediments, to the trading process.

The first topic I have been asked to address is the relative importance Deere places on its international sales.

The international part of Deere's business is significant. Deere's total sales in 1981, as I mentioned before, were about $5½ billion. Of this amount, $1.5 billion represented overseas sales. Some of these sales were of products built abroad and others manufactured in the United States.

Total exports from the United States were $705 million, while imports of goods bought or produced by us overseas were less than one-half of this amount. In other words, we have a net trading balance or more than 2 to 1 in favor of the United States.

In terms of employment, we can identify more than 7,800 John Deere jobs in the United States that are directly dependent on our exports. More than 6,000 of those happen to be located here in Iowa.

Because we purchase a large variety of goods from American suppliers, we estimate that an equal number of jobs in the plants and offices of our suppliers and related service companies are directly tied into Deere & Co. exports.

We have also been asked to comment on John Deere's expansion plans in the international sphere.

First of all, I think it is noteworthy that Deere sells products in over 100 markets in the world.

In 12 countries we conduct our business through our own marketing companies or licensees.

In the rest of the world, we sell our products through enfranchised Deere distributors who function in much the same way that an American retail dealer operates.

Accordingly, the task before Deere is not so much to seek new markets as it is to further develop the distribution basis that is already in existence.

Perhaps a more important observation relates to the strategies that are in place and how they might change in the future.

During the past years, our strategy has been to manufacture the smaller utility farm tractors abroad since the bulk of the demand for that size tractor occurs outside of the United States.

Conversely, we have concentrated the manufacture of larger tractors and equipment in the United States with the intention of exporting complete goods or components for assembly of those goods abroad.

This strategy has served us well in the past. Now, however, we find the cost of our American-produced tractors less and less competitive in world markets.

This is a reflection of the high value of our dollar, the high interest costs burdening our operations in North America, the relatively higher labor costs, and the high cost of purchased materials from certain protected American industries, such as steel, for example.

Clearly, these relative cost factors are playing a role in determining future strategy for the deployment of our assets.

With approximately 80 percent of worldwide tractor demand outside of North America, Deere has a clear interest in world markets.

We will continue to be dedicated to a strong future development of international trade, and wherever possible, and economically practical, we will use American-placed manufacturing facilities to serve these objectives.

The economic and political stability of the United States, along with its skilled work force, make it a favored investment option.

The third area I have been asked to address involves the most serious problems abroad facing a major commercial enterprise such as Deere, and also some possible solutions for these dilemma.

Actually one of the most serious problems does not begin abroad. It is the condition of our own domestic economy, particularly the historically high interest rates which dampen capital investment plans for both farmers and manufacturers and increase the cost of doing business.

These high interest rates in the United States also keep the U.S. dollar overvalued in terms of other currencies.

This puts pressure on international trade because it costs our international customers more in their own currencies to buy our products.

A second major domestic problem affecting our ability to sell products is that of excessive American Government regulation.

We don't expect the Government to financially support private enterprise, but neither do U.S. businessmen expect Government to be a hindrance.

Excessive Government regulation has saddled U.S. business with costs and burdens unknown to our foreign competitors.

In this regard I think of our antitrust laws. These may need to be clarified and modified to help American manufacturing and service companies compete in overseas markets.

Furthermore, the antiboycott regulations and laws are so complicated that many foreign customers seek to do business with countries whose companies can deal more simply with them, and many American companies, unable to cope with them, simply do not pursue international opportunities.

There is no need for redundant statutes and policies in U.S. tax laws to duplicate the antiboycott provisions of the Export Administration Act.

Additionally, the Foreign Corrupt Practices Act could be legislatively changed so that its anticompetitive effects on trade are minimized and so that its provisions are more easily understood and adhered to.

There is also a plethora of trade restrictions designed to achieve foreign policy objectives which should be carefully reexamined.

We should reasonably balance the need to encourage exports and the effectiveness and benefits of export controls.

The disastrous effects of the agricultural commodity grain embargo associated with the Russian invasion of Afghanistan is an excellent case in point, which has been referenced several times earlier today.

A third probelm area is that of export finance. As the companies of this Nation seek to sell their products abroad, they are faced with finance arrangements of competitor countries which in many cases rule out the purchase of U.S. goods.

A solid step in the right direction would be, as budget sources permit, the increased funding of our Export-Import Bank to provide competitive financing for American exports.

Deere & Co. is an active user of Eximbank programs, and we appreciate them, but we need more support.

Along with this we should reopen programs supporting sales of less than $5 million, as an example, allowing Eximbank support for sales of a $1 million or more.

International negotiations to limit other countries' subsidized export credits can be helpful, but by themselves they will not eliminate the need for a strengthening of the U.S. program.

It is interesting that again our high interest rate structure works against us.

The United States should continue to support the current Domestic International Sales Corp. provisions. It may be necessary to modify these provisions due to changing circumstances or perhaps develop substitutes, but the benefits of this program should continue at least as strong as do the current provisions.

Then we must also look at the foreign barriers to U.S. goods and services.

Our newspapers are often filled with reports of how both tariff and nontariff barriers in foreign countries continue to act as impediments to the sale of U.S. goods abroad.

The recent Tokyo round of negotiations accomplished much toward eliminating these; however, the United States must continue to insist that other industrial nations conform to the International Code of Conduct governing nontariff trade barrirers.

A cautious give-and-take approach is needed, as we should not invite retaliation from various sectors, keeping in view that we also have been party to trade distorting barriers.

We must recognize that encouragement of exports does not support adoption of protectionist measures such as import quotas or tariffs to assist declining industries.

These are usually counterproductive because they bring similar countermeasures from our trading partners.

History has shown that our economy prospers most within the fabric of free trade.

Second, protectionist policies encourage ailing industries to conduct business as usual instead of taking the difficult but necessary steps to adopt and improve their operations.

I would like to move, then, to the fourth area that I was asked to consider; namely, new ideas in the area of international trade.

My first thought here is that we need not so much new ideas, but the consistent and vigorous implementation of ideas that we already have but which we have honored only in the breach, if at all.

A good beginning in this regard would be to support the items of the agricultural export policy, enunciated earlier this spring by President Reagan, including the concept that there should be no restrictions imposed on the export of farm products because of rising domestic price implications.

Second, the President indicated that farm exports should not be used as an instrument of foreign policy, except in extreme situations, such as a part of a broader embargo.

Resolutions seeking to accomplish this have already been introduced in this Congress and merit our support.

The third aspect of the President's policy is that world markets must be freed of trade barriers and unfair trade practices.

I have already commented on the need to pursue this objective aggressively.

Our farms have the ability to relieve hunger throughout the world and enhance our own balance of payments posture.

Whatever we can do as a Government to aid this should be done with consistency and vigor.

To implement this policy there are a number of things that should be carefully considered:

First, a package of sales tools to increase U.S. exports would really be helpful. Export financing is one of the most effective tools we have to promote our exports.

It is interesting that a decline in U.S. farm exports coincided with the reduction in the number of credit tools available to the U.S. Department of Agriculture.

It is my understanding that beginning last year, no new funding was provided for short-term direct Commodity Credit Corporation credits, and the Intermediate Credit Programs for Market Development Facilities and Breeding Stock.

The history of the CCC credit program indicates that loans are repaid in full over a 1- to 3-year period.

It is my understanding that there has never been a bad debt loss in the more than quarter of a century history of this particular program.

If the program were conducted as an export-revolving fund to finance these commercial export programs, reusing principal and interest payments for future loans and permitting the fund to increase annually therefore, much more good could be accomplished.

This would free fund availability from the unpredictable budget process. The very fact that financing was assured in advance would in itself be a stimulus to sales.

Another program that is certainly not new is the food assistance program. In the long term, food assistance of the nature of Public Law 480 can prove extremely helpful in establishing new markets for agricultural products and in promoting economic development which eventually will generate new markets for our country's products and commodities.

In conclusion, if we put our minds to it, this list of modest suggestions could obviously be greatly expanded; but perhaps what we need even more than this is an understanding, as a nation. of the high stake that we have in the expansion of our international trade.

We must realize that even as we seek to export, we must also import, so that other nations with whom we trade have the means with which to buy our products, and we must make a commitment—and I really mean a commitment because one of my observations as an international businessman working around the world for over 20 years has been that there has not been that much commitment from American industry and American government in terms of policy and support to the concept of trade.

We must make a commitment to work together as industry, as Government, as farmers, as workers in the factories and offices of this State and Nation, as partners in a dedicated common endeavor to enhance our free market economy in a world market of increasingly free international trade.

Thank you very much, and I look forward to the opportunity of participating in the panel shortly. Thank you.

Mr. LOUNSBERRY. Thank you very much, Mr. Becherer. [Applause.]

I had the opportunity to share the breakfast table with our next speaker this morning. I believe it is his first visit to the heartland of the United States.

This gentleman was born in Moscow, U.S.S.R.; Vladislav Nazarov.

Mr. Nazarov graduated from the Institute for International Relations in 1952. He has served both in the diplomatic and trade areas of the Ministry for Foreign Affairs. He had been posted to the United Kingdom, India, and Greece prior to coming to the United States in 1977.

As Deputy Trade Representative and Commercial Attache to the Soviet Union, he plays a significant role in the trade policy discussions between our countries.

On behalf of the people of Iowa and Senator Jepsen, I want to offer him a special welcome this morning. Please proceed, sir. [Applause.]

STATEMENT OF VLADISLAV K. NAZAROV, COMMERCIAL COUNSELOR AND DEPUTY TRADE REPRESENTATIVE OF THE U.S.S.R. IN THE U.S.A., WASHINGTON, D.C.

Mr. NAZAROV. Mr. Lounsberry, I would like to thank you and Senator Jepsen for this opportunity to speak here to this very distinguished audience.

I would say that this is really my first visit here, and since there was no possibility—this is a restricted area between Des Moines and Ames, so we had to fly over the stretch of land, you see, and this gave me a very pleasant opportunity to observe your very beautiful State and to see your well cultivated fields. And I can assure you that I couldn't see, however hard I tried, any restricted objects like armaments, and such. [Laughter.]

Mr. Lounsberry, and ladies and gentlemen, it is a great pleasure and a real honor for me to speak here to you at this high assembly of distinguished people.

In my presentation I will touch upon several aspects concerning the Soviet Union, its economy, foreign trade and especially the U.S.-U.S.S.R. trade relations, in order to try to create as comprehensive a picture of the subject of your interest as is possible within 20 minutes.

The Union of Soviet Socialist Republics, as no doubt everyone of you is aware, is a developed country. Its national income amounts to 67 percent, and the annual industrial output is more than 80 percent of those of the United States.

In a number of fields we are world leaders. In 1981 we produced more crude oil, gas, and natural gas condensate than the United States by 40 percent; steel by 43 percent; fertilizers by 13 percent; cement by 32 percent; cotton fabrics by 80 percent, and so forth.

We do more freight traffic by all types of transport by about 28 percent than the United States; however, our agricultural output annual average is approximately 85 percent of that of the United States.

We produce from 180 to 237 million tons of grains annually, and we import these commodities only to keep developing our program of livestock breeding.

In 1981, we had 115.5 million cattle, 73.5 million hogs, and 147 million heads of sheep and goat.

Like the United States of America, the bulk of our produce is consumed inside our country. Nevertheless, today the Soviet Union trades with 139 countries of the world.

The total volume of our foreign trade over the past 10 years more than quadrupled, and in 1981 amounted to $152 billion, imports and exports always being more or less equal.

The largest group of the U.S.S.R.'s trade partners is comprised of socialist countries, and in 1981 the turnover of our total trade with them reached about $80 billion; that is, about 50 percent of our total turnover.

These countries, by the way, not only trade with each other and with us; they are creating highly integrated branches of economy.

Our trade with developing countries is also growing, and in 1981 it amounted to $22 billion, or about 15 percent.

We have many long-term trade agreements with them, as well as agreements and programs of economic, scientific, and technical cooperation of 10 to 15 years duration.

An important feature of the trade and economic cooperation between the U.S.S.R. and the developing countries is that, complying with their wish, priority is given here to assistance in developing these countries' public sectors.

This is regarded by many developing nations as the principal means for reaching their vital economic targets, as a protection of national industries and their economies as a whole.

During the latest 5-year period, complete sets of Soviet equipment were shipped to 46 developing countries for the construction of 1,250 projects.

During those years over 640 projects were either fully or partly commissioned. Among them were very large industrial enterprises like the Al-Sawra hydroengineering complex in Syria, the second stage of the iron and steel works in Algeria, the bauxite mining enterprise in Guinea, and so on.

While giving every assistance to the developing countries in their efforts to overcome their economic backwardness, the Soviet Union neither attaches any political strings to it nor seeks control over the natural resources and the economies of its partners.

We are making good progress in cooperating with our major trading partners in the West, and in general East-West trade holds an important place in the system of world economy and international relations.

Our relations with these countries are built and rest on a long-term contractual basis.

With them we have economic agreements and programs, large scale arrangements and contracts for cooperation in building a number of large industrial complexes in the U.S.S.R., including those on buy-back terms.

In matters pertaining to economic cooperation with industrially developed countries of the West, the U.S.S.R. consistently follows the principle of peaceful coexistence of states with different social systems.

Considering this kind of cooperation to be one of the factors stabilizing international relations, the Soviet Union stands for their development on the basis of equality and mutual benefit, and I should add here that the high reputation of the U.S.S.R. as a trading partner is universally known.

Western businessmen are very well aware of the advantages inherent for all sides from the development of economic relations between the U.S.S.R. and these countries.

Long-term trade and economic ties with the U.S.S.R. secure for Western countries an extremely stable market for large quantities of various machines and equipment, for ferrous metallurgy and chemical industry products, for agricultural and consumer groups.

Soviet orders utilize to a great extent the production capacities of Western companies and assure employment for hundreds of thousands of workers. At the same time imports from the U.S.S.R. are highly important for many Western countries.

At present our business relations with industrial countries of the West have reached rather a high level.

They have a sound contractual basis which is noted for its stable tendency to expansion. The favorable international political climate which existed in recent years made a direct positive impact on our trade with this group of countries.

For example, in 1970 our trade with them was at the level of $6.7 billion, whereas in 1981, it amounted to $50 billion. That is a 7.4-fold increase.

During that period we signed long-term agreements and programs on economic and industrial cooperation with practically all Western countries. Many of these agreements fully or partly covered the period of our 11th 5-year plan period; that is, 1981 through 1985.

Our agreements with Austria and France are effective till 1990; with Finland till 1995; with the Federal Republic of Germany until the year 2003.

At present the U.S.S.R. has long-term economic agreements and cooperation programs with nearly all West European countries.

West European countries in general hold a special place in the system of our economic relations with the West. In 1980 they accounted for 80 percent of Soviet Union's trade with all Western industrial countries, and for 27 percent of the total volume of Soviet foreign trade.

Business between the U.S.S.R. and West European countries has already outgrown the bounds of pure trade, which is a very important fact.

Today it covers ever new economic fields, including large-scale joint projects and industrial cooperation.

Our scientific and technical ties and exchanges of production experience and specialists have been expanding.

Intergovernmental joint commissions set up with the majority of West European countries actively contribute to further development of trade, economic and industrial cooperation.

In 1980, when the United States took measures to curtail Soviet-American trade and economic relations, our trade and economic contacts were most successful with those Western countries which pursued a more realistic policy in business relations with the Soviet Union.

Thus, an appreciable increase of 36 percent, in comparison with 1979, was reached in our trade with the Federal Republic of Germany—up to the total turnover of $8.3 billion or 5.8 billion rubles—of 49 percent with Finland—$5.6 billion or 3.9 billion rubles—of 43 percent with France—$5.3 billion or 3.7 billion rubles—of 41 percent with Italy—$4.3 billion or 3 billion rubles—and so forth.

On the contrary, Anglo-Soviet trade, for example, declined, while our trade with Japan increased only slightly, and that country has found itself squeezed out from second to fifth place among the U.S.S.R.'s major Western trading partners.

With a number of Western countries we have laid a solid foundation for further progress in trade and economic cooperation in the 1980's.

As it was pointed out at the 26th Congress of our Party, I quote:

> We give due credit to many of the capitalist countries and their businessmen for their constructive approach to questions of international economic cooperation, and shall develop our trade first of all with these countries.

The United States occupies somewhat different a position in the group of industrial Western countries.

Our trade with the United States developed very unevenly and to a great extent reflected the state of political relations which existed between our two nations at a given time.

For example, our economic and trade cooperation during the Second World War was very close indeed, and by the end of the war conditions became ripe for a great expansion of a two-way beneficial trade between our countries.

This did not happen, however, because in 1947, soon after the end of the war, a very long period of "cold war" began, during which the trade exchange between the Soviet Union and the United States fell by 1954 to its lowest level, when it amounted to a mere $20 million.

As a result of the cold war, nearly a quarter of a century was practically lost for our mutual trade. It started developing again only in the 1970's, and by 1972 it gradually reached $733 million.

The year of 1972 in general was a very important milestone in the development of our bilateral relations, both politically and economically.

In the spring of that year a document called the Basis for Relations Between the Union of Soviet Socialist Republics and the United States of America was signed. The two parties solemnly declared, in particular, that the U.S.S.R. and the United States looked upon their trade and economic links as an important element of strengthening bilateral relations, and were going to actively promote that growth.

Simultaneously, the Joint Soviet-American Commercial Commission was established, which enabled the parties to discuss the current state of U.S.S.R.-U.S.A. trade, and to suggest new possibilities for its development.

In the period following 1972, a great job was done in working out and concluding a number of important agreements relating to such aspects of bilateral economic relations as trade and financing, economic, industrial and technical cooperation, sea and air transportation, fishing, and taxation.

The U.S.S.R. Trade Representation was set up in Washington, and the U.S. commercial office was established in Moscow.

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In New York, the U.S.-U.S.S.R. trade and economic council, with its own representation in Moscow, was formed to help business circles in both countries to expand Soviet-American trade.

The Kama-Purchasing Commission was also set up in New York to help business people of both countries to carry out the tremendous work of equipping the Kama Truck Works and other industrial enterprises.

Over 30 American companies, especially active in trade with the Sovet Union, opened their offices in Moscow.

I must also mention here an American company, the Amtorg Trading Corp. in New York, which has existed for 52 years now and represents about 40 Soviet foreign trade organizations on the U.S. market.

Thus, both sides created a solid basis for a healthy growth of Soviet-American trade.

As a result, it started developing very quickly, and by 1979 its turnover reached the figure of about $4 billion, having increased nearly fivefold in the couse of 7 years.

I must say that the Soviet Union looked upon Soviet-American trade very seriously. With the lapse of time, both sides could work out a mutually important range of commodities for a large scale exchange. We could launch multibillion joint ventures and plan the development of our trade for many years in advance.

All in all, we could create trade relations worthy of our two great powers. Unfortunately, this did not happen.

After the year of 1976, the trade did not expand as fast as the trade partners in both countries had expected, the growth being only due to our increased purchases of grain and other agricultural commodities. Our imports of machinery and equipment from the United States, for example, decreased after 1976 by half.

This happened due to the adoption in 1974 by the U.S. Congress of trade legislation which virtually stood in the way of a further development of trade between our countries.

By adopting the Jackson-Vanik and Stevenson amendments, the Congress deprived the Soviet Union of the possibility of enjoying in the future the status of equality with other American trade partners; the so-called MFN treatment. This hampered our exports to the United States, as well as virtually made impossible the issuance of state credits to the U.S.S.R. for purchasing American machinery and equipment, and also grain.

Since then and till 1980 the business people and many officials connected with foreign trade in both countries have been busy working at getting this legislation removed, but they have not succeeded in doing so.

Still, additional difficulties for the trade with the United States came at the beginning of 1980 when, as you are aware, President Carter introduced a number of measures which curtailed the Soviet-American trade in 1980 by almost 50 percent.

It has become everybody's knowledge now that the restrictive measures of the previous administration on Soviet-American trade have failed to play the role assigned to them at the beginning.

The Soviet Union has managed to import all the fodder needed to maintain and even somewhat enlarge the number of its livestock.

As President Reagan said on March 22 this year, I quote:

predicted cutback in their meat production never materialized as a result of our action. By increasing grain imports from other sources, by seeking out meat imports from other countries, and by expanding the use of substitute feeds," the Soviet people "were able to maintain their meat inventories.

And further, President Reagan said that the embargo turned out to be bad for American farmers and for American economy.

So far as the American industrial products are concerned, many similar types of such products were bought by the Soviet Union elsewhere or produced within the country.

In electronics, for example, which is one of the American most guarded sections of industry, the Soviet Union makes its own types of chips and machinery now which are in no way behind those produced in the United States, and American specialists in the electronics are well aware of this fact.

I would like to draw your attention here to one specific point, the importance of which is being greatly exaggerated in official statements and in American press-media.

It is alleged that the so-called high technology products—in fact, they are not so high in their technology and are freely traded on the world market—played a crucial role for the U.S.S.R. in developing its industry, and that therefore the administration had to take special steps to sharply curtail and even completely ban the export of these products to the U.S.S.R. in order "to keep the gap between the American and the Soviet industry."

If we turn to figures, however, we shall find that our total imports of machinery and equipment from the Untied States of America has never been really high, and that in the peak year of 1976, it amounted to only $820 million, but it included sets of equipment for several huge projects which were being built in the U.S.S.R. at that time, such as the Kama Truck Plant, and others.

When we deduct the general equipment from the above figure, we shall have left a mere 2 to 3 dozen million of the so-called high technology products in that peak year, which is negligible for the trade between two colossal industrial powers such as the U.S.S.R. and the United States of America.

In total, for example we imported from the United States of America in 1976 American-made computers for the sum of only $20 million. Next year our total imports of machinery and equipment from the United States already dropped almost by half to $460 million, and it never increased again.

Besides, our total imports from all countries, including all kinds of equipment, raw materials, consumption goods, et cetera, comprise only about 4.5 percent of our GNP. So if we had relied only on imports of machinery and high technology products from abroad, we would have never developed our economy.

Moreover, the level of the development of science and technology in the U.S.S.R. is such that we ourselves can produce high-technology items of no worse quality than those produced elsewhere.

By the way, the exchange of scientific and technical information between the U.S.S.R. and the United States of America was a street not of one way, as it is often alleged here, but of a very busy two-day traffic.

Therefore, many American scientists were disappointed when at the end of last year the science and technology exchange agreement was declared not to be renewed.

So we have been buying certain types of electronic equipment from the United States of America, not because we were unable to produce it at home, but because sometimes it is more reasonable to buy a limited quantity of equipment abroad than to start producing it within one's country. This is the essence of world trade.

In spring 1981 the new American administration took some specific steps which brought about an improvement in the U.S.-U.S.S.R. trade during a major portion of last year.

The administration has lifted the embargo on grains and phosphates—two leading commodities exported by the United States to the Soviet Union in recent years—and offered us additional amounts of grain beyond those stipulated in the current grains agreement.

In August 1981, United States and Soviet delegations met in Vienna and agreed to extend the expiring long-term grains agreement for another year, covering October 1, 1981, through September 30, 1982.

The delegations also announced that further discussions would be held to explore the possibility of concluding a new multiyear grain agreement.

Though many restrictions on exports to the Soviet Union of an extensive list of industrial commodities not only remained intact, but were further aggravated, the Department of Commerce approved a validated license for the export to the U.S.S.R. of $40 million in pipelayers.

As a result of all the above measures, the total volume of the U.S.S.R.-U.S. trade in 1981 increased by nearly 23 percent in comparison with 1980, and amounted to approximately $2.6 billion.

However, there are and there have always been in the United States some powerful forces which for one reason or another are not at all happy about any normalization of relations between our two countries, including the sphere of economic exchange.

They are ready to avail themselves of every opportunity to stop it. That was the reason why at the end of 1981 new restrictions were introduced on U.S.S.R. trade.

I believe that if there exists a real desire to develop trade, all obstacles can easily be avoided to do so. In this case there was no such desire.

Complying with the new restrictions, the U.S. Department of Commerce stopped examining all the applications for export of commodities to the U.S.S.R., and practically all the commodities which require validated licenses have been barred from the Soviet-American trade.

I would draw your attention to the fact that major allies of the United States were extremely reluctant to join the administration in this new venture and a lot of effort was needed to persuade them to do so; but so far the administration succeeded only to a limited extent and not in all fields at that.

So, ladies and gentlemen, what are we to do with the Soviet-American trade in the future?

So far as our side is concerned, we are optimists. As you saw, the whole history of the U.S.-U.S.S.R. trade relations looks like a temperature sheet of a feverish patient at a hospital—jumping up and falling down—and I am of the opinion that some better times for our mutual trade will certainly arrive.

Very simply, there is no other sane alternative to normal political and trade relations between our two countries.

In the Soviet Union, we look upon economic and trade relations with other countries, including the United States, not only from the point of view of mutual benefits which normal trade suggests for partners, but we also take into account the fact that trade is a powerful instrument for the improvement of overall relations between countries and peoples.

NORMAL TRADE MAKES FRIENDS

This position of ours in relation to the United States has not changed. As Mr. Nikolai Tikhonov, the Soviet Prime Minister, said at the 26th Congress of our party on February 27 last year, I quote, "We are ready to develop economic relations also with the United States on the basis of equality and mutual advantage."

So far as the American side is concerned, it is necessary that the above-mentioned obstacles which hinder the normal course of our mutual trade be removed. This would enable businessmen of both countries to start mending the severed ties. It would take some time to do, but if there is a will, there will always be a way.

Thank you for your attention. [Applause.]

Mr. LOUNSBERRY. We also have another distinguished official from the Soviet Union here this morning, Ivan Shestlpalov.

He is an agricultural attaché, and I would like to have him stand and be recognized. [Applause.]

We have one more speaker before we reassemble as a panel. Dennis Lamb is U.S. Deputy Assistant Secretary of State for Trade and Commercial Affairs.

Mr. Lamb was born in Cleveland, Ohio, and after graduating from Columbia University with a B.A. in political science. He received a master's from MIT in the same field and is a career diplomat.

In 1978, he served as a deputy chief of the U.S. Mission to the European Community. Prior to that he was posted in both Paris and Martinique.

Mr. Lamb's emphasis throughout his almost 20 years in foreign service has been in the economic arena.

Mr. Lamb, please proceed. [Applause.]

STATEMENT OF DENIS LAMB, U.S. DEPUTY ASSISTANT SECRETARY OF STATE FOR TRADE AND COMMERCIAL AFFAIRS

Mr. LAMB. Bear with me, ladies and gentlemen, just briefly. We will get to the panel and, even more importantly, we will get to lunch.

I want to talk to you a bit about trading in the 1980's.

The next several years pose enormous challenges for trade policy and for U.S. Government assistance to exporters.

I want to talk about both challenges with you today, beginning with the challenge to policy.

Slow growth, high unemployment, and inflation in many countries—plus increased international competition and new trade and investment distortions—are imposing growing strains on the trading system.

The pace of liberalization has slowed and pressure for increased protectionism is rising both here and abroad.

There is sentiment in Europe to restrict exports from Japan, the developing countries and from the United States.

Advanced developing countries, having chosen the path of export-led growth, nevertheless erect barriers to developed country exports.

Japan bars imports to a degree that we believe is inconsistent with its role as a major participant in the trading system.

Here in the United States, feelings are running high over other countries' moods to restrict our exports and their use of subsidies to compete with us in third markets.

At the same time, we protect certain sectors of our economy, and there is talk of extending protection to others. As a result, we have come in for our share of foreign criticism.

The resurgence of protectionism and the resulting negative tone of international debate reflect two simple facts, in my opinion:

First, most developed countries are under enormous political pressure to alleviate current economic problems, particularly high unemployment, and to do it quickly.

Second, most countries, and many companies, and many States, for that matter, have seen their dependence on exports grow in recent years. The need to pay for expensive imported oil has been a principal reason. It is true for us, but it is particularly true for the developing countries.

Now, against this backdrop of worldwide economic stagnation, and an increased need to export, we also face a rapidly changing trade environment.

Major changes that we can see now and which will accelerate in the coming decade include:

The growing importance of high-technology trade and investment;

The emergence of the newly industrializing developing countries as major competitive forces of the international economy; and

The expanding role of services.

Our task is complex; we must hold the gains of the postwar period and adapt to the future. In short, we must resist pressures for short-term measures that offer no solutions, tackle emerging problems, and plan for the long term.

These objectives are linked. The risk that governments will take new measures to protect domestic markets can only be avoided by renewed international commitments to work for a freer, more open trading system, a system which can meet the needs of the 1980's and beyond, and a system that will insure equitable opportunities for all.

The United States is working toward an international consensus to address the key issues.

Three meetings—the ministerial meeting of the Organization for Economic Cooperation was held in Paris last week; the Versailles summit which the President will attend from June 4 through 6; and the GATT Ministerial—trade ministers from countries belonging to the General Agreement on Tariffs and Trade—in November—are the three focal points of our campaign.

Discussions and decisions taken at these meetings will have a strong influence on the direction of international trade relations for the 1980's.

Our medium-term goals are rather well defined, although in some cases we are still considering how best to achieve them.

Let me describe briefly what we are seeking in several areas.

First, high technology. Although no precise definition of high-technology industries is possible, they are generally characterized as intensely research-dependent and innovative in applying research results to new products and processes.

Their products or services usually involve a high level of R&D and technically sophisticated production methods.

The introduction of new technologies such as microprocessors and robotics will increase the pace of structural change. On balance, this is a positive development.

In contrast to the adjustments that we have had to make as a nation and as a world, as energy costs rose, technological change promises to create new jobs and promote economic growth.

At a recent technological fair in Chicago, none of the newest products on display was developed or produced in a single country.

Available evidence suggests that the ability of companies to internationalize production will be a key factor in the efficient utilization of new technology.

We need to minimize the trade frictions which arise because of varying degrees of government involvement in promoting technology products and to facilitate the flow of new technologies across national frontiers.

The United States is pressing for the formation of working groups in the OECD and GATT to look at trade barriers and problems in the high-technology area.

The unique characteristics of this trade suggest that distortions exist that have not been previously considered internationally, such as industry targeting and Government-financed R. & D.

As we see it, the first task of the proposed GATT working group will be to identify these distortions and recommend which of them can be handled under existing GATT rules and procedures.

Second, the newly industrialized countries will present major challenges and opportunities in this decade.

An anticipated rapid increase in manufactured imports from them will add to existing pressures to adjust output and employment in our traditional labor-intensive industries.

The need to adjust will broaden and intensify as these countries increase in number and begin to move up the technological ladder.

Growth in the advanced developing countries can also provide increased opportunities for developed country exports and investment.

In the 1970's developed country exports to the newly industrializing countries grew at roughly the same pace as trade among developed countries.

The major policy challenge for us is to find ways to induce and encourage these countries to become full partners. We hope the GATT Ministerial will address this issue creatively, recognizing that the basic bargain that needs to be struck involves safeguarding their access to our markets, in return for which they should be willing to reduce barriers to developed country exports.

The third key area is services. As other countries experience the shift to services which occurred in the United States during the 1970's, we can expect heightened international competition in a number of sectors.

At present, there is no international framework of agreed rules for trade in services, although the OECD has undertaken studies in a number of service sectors.

We have strongly supported this work and have urged the organization to broaden its consideration of services barriers and find possible ways to reduce or eliminate them.

We continue to encourage our major trading partners to examine their services sectors, and define their interests and objectives for future international negotiations.

At the GATT Ministerial in November, our goal is to obtain agreement to pursue a serious work program on services trade.

The fourth emerging area for policy is investment practices. Just as in services, there is no international framework of agreed investment rules.

Until recently, this did not tend to cause a serious problem because investment issues tended to be intermittent and country specific.

With the global economic downturn, resort to interventionist policies has increased.

Our goal is to reverse that trend by establishing international understandings and rules which support an open investment climate.

Among our specific goals are better market access and national treatment for U.S. investors abroad.

Trade distorting practices which we seek to minimize are requirements for local content, mandatory exports and domestic hiring, as well as limitations on rights of establishment.

We have not, of course, neglected agriculture. We want to see a major new effort in the GATT to bring agricultural trade closer to the disciplines that apply to trade in goods.

I would be less than candid, however, if I neglected to tell you that our ability to launch significant new work depends upon our ability to manage successfully a range of current issues that we have with the European Community.

I hope you will agree that the trade agenda for international action is extensive. The opportunities are great, and if we take an ambitious and positive approach, I am confident that progress is possible.

Domestically, we have challenges to meet as well. Over the next decade we will face a world which differs greatly from the one in which today's trade policies and rules were developed.

Competition from Japan and the newly industrialized nations will be particularly intense. We will need a strong domestic economy to meet it. Increased investment, research and development, and productivity are vital.

A major and creative export promotion effort will also be required to take advantage of our competitiveness and the trade opportunities that we hope to create internationally.

Strong support for U.S. business abroad, creative use of export financing and promotion programs, and identification of growing markets in the developing world will be particularly important.

At home, the administration has worked with the Congress to improve the tax treatment of Americans working overseas, to lessen the burden of complying with the Foreign Corrupt Practices Act, and to shape new export trading legislation.

Much has been done in the legislative area, but more can be done.

Tax treatment of Americans living and working abroad was liberalized in August 1981 with the passage of the Economic Recovery Act.

Before this legislation was passed, the United States was the only major industrial country that taxed income earned abroad on the basis of citizenship.

The effect, now eliminated, was to invite U.S. companies to replace American employees with foreign nationals and to make U.S. exports less price competitive.

The administration is actively supporting legislation to change the accounting controls and bribery provisions in the 1977 Foreign Corrupt Practices Act.

Our intent is to make the accounting requirements less onerous, and to impose liability for circumvention of the regulations, not mere failure to observe them to the letter.

Also, we want the antibribery provisions of the act to apply only where there is proven intent to make a corrupt payment.

These changes would produce the result the law intended, but remove an important disincentive to export.

Another proposal receiving active administration support in Congress encourages the formation and development of U.S. export trading companies. The idea is to permit commercial banks to own equity in trading companies and to allow such companies to "preclear" their activities under our antitrust laws.

There is continuing discussion in Congress about how to deal with the antitrust issue, but the Congress and the administration are agreed on the principle that antitrust concepts require change to lessen their effect on exports.

Outside the realm of legislation, the U.S. Government has a number of programs to assist firms doing business abroad.

A wide range of export promotion programs can help in selecting and exploring foreign markets.

At our embassies and consulates, officials of the Departments of Commerce, Agriculture, and State conduct overseas market research, gather commercial data and offer on-the-spot assistance to U.S. businessmen.

In the area of finance, the U.S. Government offers some programs which offer some assistance. The Export-Import Bank and the Commodity Credit Corporation facilitate U.S. exports and help exporters meet foreign competition for third markets.

On the investment side, the Overseas Private Investment Corp. provides political risk insurance and financing services for U.S. companies that make direct investments in developing countries.

I would like to touch briefly on one other matter: The State Department's unique role in support of American business abroad.

One of Secretary Haig's first actions as Secretary of State was to instruct each ambassador that a major purpose of his or her stewardship must be to lead personally the U.S. Government's commercial effort in that country.

I am pleased that we are receiving an increasing number of comments from companies which are pleasantly surprised to find ambassadors and embassy staffs giving a top priority to assisting American companies.

In cooperation with Secretaries Baldrige and Block, and Trade Representative Brock, the State Department is committed to make

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a full contribution toward assisting the companies in Iowa and in every State to be successful exporters and competitors abroad. Not that you are not doing well. In 1980 Iowa ranked first as an exporter of farm products, with receipts of $3.74 billion. Exports of manufactured goods were even larger.

Let me add also that I have been impressed during this past year with the growth in the number of State trade missions going abroad to aggressively seek export markets for their companies.

The State Department is fully prepared to assist you in whatever way we can in this overall effort.

Adoption and implementation of a comprehensive trade policy approach, both domestically and internationally, will strengthen the U.S. economy and our ability to compete in world markets.

To succeed, we will need to muster both national determination and commitment to rely on competition and free markets.

The Government can help create an environment conductive to efficient and profitable production. It can make laws and regulations less onerous, and it can offer some direct support, but private individuals and enterprises have to take the initiative to seize economic opportunities.

In the end, we are relying on you.

Thank you. [Applause.]

Mr. LOUNSBERRY. Thank you, Mr. Lamb.

Now it is time for a short stretch while the participants on this morning's panel come up front, and I would ask you who are asking the questions, keep them short and to the point, and I would also ask the respondents to respond in a similar manner; short and to the point.

We are going to start promptly on time this afternoon, so govern yourselves accordingly.

All of you gentlemen who are going to participate on the panel, will you come up in front, please.

[A short recess was taken.]

Mr. LOUNSBERRY. If you will all take a seat and have your question in mind, there are going to be a number of microphones. Basically, they are circulated in the audience. I hope that this can be heard.

I would ask, if you would, to direct your questions to one of the panelists, if you so desire. I would hope that you would have your questions formulated in that manner.

Are we ready for the first question? Jim West, are you out there, and do you want to circulate with the microphone, or one of these gentlemen in the communications division?

Who is going to raise the first question out there? Ma'am.

A VOICE FROM AUDIENCE. Yes. I would like to address my question to Mr. O'Dowd. You and several other members of the panel have said that U.S. commodity trade, particularly in agricultural commodities, seems to be growing.

I would like to ask you what direction do you feel these sales will take? What exports do you see are the primary ones that your company is involved in, and what kind of volume do you anticipate for the seller?

Mr. O'DOWD. Is that all you want to know?

Mr. LOUNSBERRY. Hang in there. [Laughter.]

Mr. O'DOWD. Would you like to repeat that question so everybody can hear it? How many parts were there?

A VOICE FROM AUDIENCE. Two.

Mr. O'DOWD. Just two, OK. You know, I think a country with a billion people obviously represents a tremendous market. Unfortunately for people in this part of the country, Chinese purchases of grain have been primarily wheat, and as you all know, we don't raise a great deal of wheat here, but as things improve over there, I am sure there standard of living will be up some, and I fully expect to see them using more feed grains.

And I truly think that in areas that we are not associated with, there is truly a demand for manufacturing plants.

I think one of the biggest problems with Chinese exports is probably labor. I look for a gradually growing market that has a tremendous amount of potential down the road.

Mr. LOUNSBERRY. Next question. Sir.

A VOICE FROM AUDIENCE. Yes. I have a question for Mr. Nazarov.

You mentioned earlier several factors that were limiting features on United States-Soviet trade. One of them was most-favored-nation trading status.

It is well known that one of the basic goals of Soviet agricultural policy is self-sufficiency.

If the United States was to grant most-favored-nation trading status, would that lessen the urgency, from the Soviet point of view, for self-sufficiency?

Mr. NAZAROV. Well, the most-favored-nation treatment in foreign trade means that any foreign country is treated by a particular country not worse than a third country which enjoys the best treatment.

Actually the most-favorable-nations treatment means that every country is equal in doing trade with a particular country. So far as the U.S.S.R. is concerned, the pack of this treatment for us means that our exports to the United States are treated less favorably than other countries and we have to pay higher customs' duties in exporting our goods to the United States, naturally, the less we can export the less we can import.

Mr. LOUNSBERRY. If the next questioners will look for the roving microphone and speak into it, then we will be able to hear you throughout the hall.

Sir.

A VOICE FROM AUDIENCE. I have a question for Mr. Nazarov also.

Mr. LOUNSBERRY. Speak into the mike, please.

A VOICE FROM AUDIENCE. The folks are wondering what is limiting Russian purchases of American grain at this time. Is it the fact that Russia doesn't need any more grain than what they are getting from, say, other countries? Are the port facilities and the actual handling of the grain actually suppressing some of the purchases from the United States, or is it political considerations?

Mr. NAZAROV. This is a big question to answer.

First of all, we are buying a lot of grain from the United States now. You see, according to the grain agreement, we have to buy 6 million tons of grain a year altogether, and if we have a great desire, then in consultation with the U.S. Government, we can buy 2 million more. That is, we can buy 8 million tons altogether.

So far as the present situation is concerned, this year we have been able to buy 14 million tons already, and we have some left, out of the total of 23, which the U.S. Government has provided for us; so, you see, we are doing our best to buy grains from the United States.

But you should have in mind another factor; the fact that while our trade relations, especially in grain, have not been handled well—you know that, I have just been telling you about it—meanwhile, during these 2 years we have established contractual relations with other countries.

So we have obligations to them, to Canada, to Argentina, and to other countries, and we have to buy from them; but nevertheless we are trying to buy from the United States, as well.

A VOICE FROM AUDIENCE. This question is addressed to Mr. Heldridge.

Here in Iowa we have been recommending that Export-Import Bank financing first of all be liberalized, expanded; and, second, that you not have to go back to Congress every year and be included in the budget.

In view of the fact that you are historically a moneymaking organization, this seems a little ridiculous.

Would you like to comment on that?

Mr. HELDRIDGE. Thank you. We appreciate your support and your sympathy with the idea that we not have to go back to Congress; however, Congress and the administration seem to be at a conflict on this.

The administration is in favor of cutting our amount of lendable funds down or our authority down slightly each year, and the Congress wants to raise that, and we are kind of caught in between.

We see the good that can be done with the funds that we lend, the jobs that it creates, and I certainly appreciate and would take your position; however, if I were President Reagan, I might have to modify that position.

Mr. LOUNSBERRY. Thank you.

A VOICE FROM AUDIENCE. Mr. Nazarov, being a small manufacturer of construction equipment here in the Middle West, how should we go about doing business in Russia? What would be your advice on how to start and proceed?

Mr. NAZAROV. Well, it is different with every commodity. So if you want to have a more particular answer to your question, I would suggest for both of us to discuss it separately, and I could give you some advice. If I cannot, I will give you an address of the people with whom you will have to get in touch okay?

Mr. LOUNSBERRY. OK. Where is the mike next? Back over there.

A VOICE FROM AUDIENCE. Mr. Lamb, many of the commercial offices of the State Department have been transferred over to the Department of Commerce.

We have also heard that if the Ambassador was a political appointee, that he was not interested in business, but if he was an appointee—I mean he would be interested in business, but if he was a bureaucrat, he would not be interested in business.

Now, with the commercial offices being transferred to the Department of Commerce, do you think that will help the business community?

Mr. LAMB. Let me say that I hope it will help the business community. After an initial and relatively brief settling-in period, I think the Foreign Commercial Service is doing very well.

They focus their efforts on introducing new small- and medium-sized American enterprises to the foreign market and taking small- and medium-sized exporters and expanding their operations into new markets. I believe this focused coverage will be helpful in making sure that their resources are efficiently utilized.

My own experience has been that American ambassadors' sensitivity to the importance of U.S. exports has increased directly in proportion to the importance of U.S. exports to the U.S. economy. That has doubled in the last 10 years.

The attention and sensitivity has doubled and maybe should increase a little more

I wouldn't draw any distinction between professional and nonprofessional ambassadors. Some in both categories need to be educated and most in both do an excellent job.

Mr. LOUNSBERRY. Next question.

A VOICE FROM AUDIENCE. Mr. O'Dowd, soybean exports are up 22 percent. The price is down 9 cents a bushel. How much more exporting do we need and not all be laid to a lower domestic price, or what?

Mr. O'DOWD. Well, I guess I would have to say that the lower price of beans reflects a somewhat burdensome supply, but more especially the world recession.

I think that soybeans are holding up considerably better than corn has. I am more optimistic about soybeans than I am about corn in terms of price recovery, but I don't think that you could—I don't necessarily think that there is a correlation between—at the present time between the amount of exports and the price. I think it is more—the price is more a factor of the world recession and lack of demand or lack of ability to pay for the protein that comes from the soybean.

Mr. LOUNSBERRY. Next question.

A VOICE FROM AUDIENCE. I have one for Mr. Becherer.

You have explained to us what the problems are as to exporting at the present time because of the exchange rates in the countries, but I am curious as to where you see Deere's biggest potential right now, the biggest potential markets, and what are the problems getting into those markets for you right now.

Mr. BECHERER. In terms of major growth for Deere overseas, the highest potential area is Western Europe, primarily, because the markets are in existence now and our market shares there have not developed to the level they have in this country, so we see a great potential opportunity for our country to improve there and sell a great deal more equipment.

A secondary area that has been very active in the last several years, where we have sold a great deal of equipment, is in the Middle East.

The oil producing countries have embarked on major programs of irrigation projects and increasing their agricultural activity, and we have been a strong supplier to a great many of those markets.

Those are the two areas that have the most practical growth opportunity for us.

Mr. LOUNSBERRY. Thank you. Have we got another questioner here? You all must be getting hungry.

Mr. O'DOWD. I would like to ask the gentleman who just asked me the question what he thinks the price of beans would be if he hadn't had the exports.

A VOICE FROM AUDIENCE. I don't know. A 22-percent increase wouldn't do any good, if we have a world recession.

Mr. O'DOWD. What would the price be if you had a 22-percent increase?

A VOICE FROM AUDIENCE. How much of an increase are we going to need to help our price?

Mr. O'DOWD. Thirty-seven and one-half. [Laughter.]

Mr. LOUNSBERRY. Anybody else got some gems of wisdom to impart upon this body before we recess for lunch?

I hope you will all be able to stay for this afternoon's program. We have some fine speakers coming up, and we are hoping to have a good lunch.

A VOICE FROM AUDIENCE. This one is for Mr. O'Dowd too. I am not sure if I got the percentage right, but I fail to realize how the Japanese can buy our American grain products here in the United States and sell them—say, take 34 or 40 percent back to their country, sell the other 60 percent to, say, third countries on just an attractive credit policy.

Mr. O'DOWD. Will you repeat the question, please?

A VOICE FROM AUDIENCE. You said that Japan, you know, buys commodities here in the United States.

Mr. O'DOWD. Correct.

A VOICE FROM AUDIENCE. And they do not import all the commodities that they buy as far as grains.

Mr. O'DOWD. Correct.

A VOICE FROM AUDIENCE. They sell them worldwide.

Mr. O'DOWD. Yes.

A VOICE FROM AUDIENCE. Just because of attractive credit policies that they give those countries.

Mr. O'DOWD. Yes.

A VOICE FROM AUDIENCE. Could you expand on that? Why can't we do that? They buy it from us first.

Mr. O'DOWD. They have got the Federal Government standing behind them.

There is an excellent book out called "The Japanese Trading Company" by the Yale Press, and I recommend it as reading today for everyone.

What we fail to realize is that these massive Japanese trading companies, many of which do 30, 40, 50, even 60 billion dollars' worth of business a year, are actually supported creditwise by the Government of Japan, and we don't enjoy that same help and participation.

Now, if we had it, I think we could be a lot more effective around the world. That was the main thrust of my talk; that it is time for us to come together with the Government with an open hand instead of a clenched fist and put this country where it justly deserves to be.

We are as damn good a trader as anybody in the world, but we need some help. We don't need any giveaway deals, but we need some credit assistance, and I think that can stimulate these markets and get them moving where we can have some excitement in them. Otherwise, they are limp. There is nothing to them.

We have got an excellent chance of going back to the markets of the 1950's where we raise grain simply for Government programs, and as I recall, to me it always sat right on the bottom and maybe moved a few cents off of it.

I get to Washington occasionally, and they tell me that the farmers want stable prices. Well, they are talking to different farmers than I am, because stable prices to a farmer means stable on the floor.

I think they like the roller coaster to give them a chance to get off on the top now.

We need excitement. We need the Soviet business. We need a lot of the business that the Japanese are doing, and I think the way to do it is for the Government to help us not give away, but to give us some credit.

We cannot afford to sell grain for 6, 7, 8 percent when commercially it is costing us 16 to 18.

Mr. LOUNSBERRY. I would like to make an observation.

I think first of all you will have to get the Government in a better balance-of-trade deficit before they can enter into that type of marketing as the Japanese have done.

I don't know whether this mike is working down here or not, but if it isn't, I will pass this over.

Do we have any more questions now? Sir.

A VOICE FROM AUDIENCE. Mr. O'Dowd, kind of a followup to that. You said that you are in favor of increased lending assistance from the Government. Do you estimate that the export—revolving export credit fund, if it is set up, will have much of an effect on prices? Could it have much of an effect on farm prices?

Mr. O'DOWD. You know, how much is much? Anything is going to help. As I said, I think what we need now is a whole lot of little things.

Beyond a shadow of a doubt, the gentleman on my left, the country that he represents is the magic to our market. It is not so much the question of the quantity, although that is important, but the big bear still makes a bull out of our market, and he adds the excitement to it, and that's the type of help we need. [Applause.]

Mr. LOUNSBERRY. Any more questions so we can get some more gems of wisdom to come forth here?

[No response.]

Mr. LOUNSBERRY. Well, if there are no more questions, we will recess for lunch.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at 1:15 p.m. the same day.]

AFTERNOON SESSION

Mr. LOUNSBERRY. Ladies and gentlemen, in the interest of time, we are going to introduce two people before we introduce Mr. Yeutter.

First of all, I would like to recognize the chief staff person from Senator Grassley's office, Wythe Willey. Stand up and take a bow. [Applause.]

Then we have with us today the president of the Ames Chamber of Commerce, Ted Tedesco. I would like to ask Ted if he has a few words to say.

STATEMENT OF TED TEDESCO, PRESIDENT, AMES CHAMBER OF COMMERCE, AMES, IOWA

Mr. TEDESCO. Mr. Lounsberry, distinguished guests, ladies and gentlemen, friends and neighbors, on behalf of the Ames Chamber of Commerce and the community of Ames, I would like to welcome you.

Ames is in the heartland of America, and it is where agriculture, industry, and education team together for the progress of the world.

I hope that you enjoy your working visit with us, and that the effects of this visit will be long and profitable to all.

Again, welcome to Ames. Thank you for coming, and if we can help you in any way, please feel free to call us.

Thank you. [Applause.]

Mr. LOUNSBERRY. Thank you, Mr. Tedesco.

Now I would like to call on the president of Iowa State University, Mr. Robert Parks.

Mr. Parks.

STATEMENT OF ROBERT PARKS, PRESIDENT, IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY, AMES, IOWA

Mr. PARKS. Thank you very much, Mr. Lounsberry. Participants in the trade conference, I know that you, as I am, are sorry that Senator Jepsen couldn't be here for his own party—I mean this kind of party—but Mr. Lounsberry is a capable moderator.

I have been on the program with Bob many times in different places, sometimes in the middle of a cornfield, where I hold his coat and he makes a speech. I am glad we are not there today, however. I don't have my boots.

We at Iowa State are always willing to hold meaningful conferences. Sometimes people wonder exactly why we do or why a particular conference is held here.

I can recall a few years ago we probably became as famous here in Ames for one conference as for any other thing. We held an iceberg pulling conference in Iowa State.

The prince of ice put up the money, and we said, "We'll hold the conference."

People may wonder why we would hold that conference, but I think no one would wonder why a conference on international trade should be held here at Iowa State University in the heart of Iowa, which is in the heart, of course, of the midland.

To say that Iowa State University has an interest in this subject is clearly to understate the proposition.

With our keen interest, and I hope competence in such areas as agriculture, technology, economics, we do have, of course, the keenest interest, and I hope some considerable expertise in the areas which we are considering here today.

My being here is actually a fun thing for me because it is quite unnecessary, believe me, for any group interested in international trade to have to be welcome to Iowa State. You know before I tell you that you are indeed welcome.

It has been a real fringe benefit for me to be able to sit with my good friend, Clayton Yeutter, who I have known for some years, and I have to leave before Clayton makes his speech, and I want to tell you, I am not leaving because it is a dull speech. It is a very good speech. I got a copy of it right here, so I recommend that the rest of you stay, and I hope you have a good conference and come back to see us.

Thank you very much. [Applause.]

Mr. LOUNSBERRY. Thank you very much, Mr. Parks. I thought the reason you were leaving is you didn't want to have an early confrontation between the Big Red and Cyclones.

Mr. PARKS. I don't want that either.

Mr. LOUNSBERRY. Well, ladies and gentlemen, we are fortunate to have as our guest luncheon speaker this noon, Clayton Yeutter. He was born and raised in Eustis, Nebr. He received a B.S. degree in agriculture and a juris doctorate and a Ph. D. in agricultural economics from the University of Nebraska.

I don't have any good jokes to tell, and you have all heard them about the economists anyway, but he did teach in Lincoln at the University of Nebraska after graduation.

After serving with a law firm in Lincoln, Nebr., he embarked on a career of public service. He has served as U.S. Assistant Secretary of Agriculture for Marketing, Under Secretary of Agriculture for International Trade, and most recently, Deputy Special Trade Representative in the Ford administration before taking his current position, which is president of the Chicago Mercantile Exchange.

Please welcome Mr. Yeutter to our hearing. [Applause.]

STATEMENT OF CLAYTON YEUTTER, PRESIDENT, CHICAGO MERCANTILE EXCHANGE, CHICAGO, ILL.

Mr. YEUTTER. Thank you very much, Mr. Lounsberry.

I guess I should say two things to start out with.

One, Mr. Parks is not such a good friend any more since he walked out on my speech. You can relay that to him. No; you have a very fine president at Iowa State, and you are very, very fortunate to have Mr. Parks serving you here.

The other thing, Mr. Lounsberry, is I totally forgot to wear that red suede jacket that I usually wear in Lincoln. I probably should have brought that along today, shouldn't I? I probably would have gotten booed off before I started to speak.

Well, we better get down to international trade.

Mr. Parks did indicate that there are some copies of my prepared text around. Those of you in the audience who have heard me speak in the past know that I never ever speak from a prepared text, and today is no exception to that, but for those of you who would like to have copies, there are some around; not enough for everybody, obviously, but particularly for those in the media who would like to have them, feel free to pick them up from somebody on the staff. I guess they are over at that end.

Feel free to quote from them even though, as I told you, I might not say the same thing as what's in the prepared text.

The other thing I must say, Mr. Parks, and for all of the rest of you, Senator Jepsen and his staff in particular, is that I think it is excellent that you held this kind of a conference here in Iowa.

It is important that we spend a lot more time and attention on international trade, and I commend Senator Jepsen and the subcommittee of the Joint Economic Committee for having the foresight to bring one of these sessions out here to the middle part of the country.

Everybody always wants to go to the West and the East, and nobody ever wants to come to the center.

We Nebraskans feel the same way as you Iowans in that respect. Everybody flies across, and nobody ever lands in this part of the country.

You really have to come out in this area to really find out what this country is all about. This is truly the heart of America, and foreign visitors who finally do get into areas like Iowa and Nebraska come to that conclusion. There just aren't enough of them who come here.

It is good that Senator Jepsen and the subcommittee of the Joint Economic Committee have brought this program here.

I also wanted to complement them on the quality of the program. You had some excellent people on the program this morning, and you are going to have some excellent people here this afternoon, so you have a very, very good quality program ahead of you, and it ought to be a worthwhile day, luncheon speeches excepted.

Now, back to the issues at hand.

The first thing I would like to say to you is that I am concerned about the international trade situation as it exists today. I am probably more concerned about what is happening and not happening in international trade right now than I have been in a good many years.

It is not a happy situation, by and large. It is worrisome in terms of the future of the GATT, the General Agreement on Tariffs and Trade, which reassess the rules for international trade for the world, and it is worrisome in terms of a number of our bilateral relationships.

There is more shrillness today in bilateral relationships between the United States and some of its trading partners than I have seen in a long period of time, and some of that shrillness, of course, has been reflected in legislation that is proceeding through the Congress.

Whether any of it will become law in time, time will tell. Certainly it is a situation which should give us all pause to stop and think as to where we are heading. That is not just the United States, but some of our trading partners as well need to think this through because it is not an easy time.

There are a lot of inconsistencies in the way we handle trade in the world today. There is a lot of paranoia. There are some inferiority complexes, national inferiority complexes that come through from time to time, and a whole lot of other characteristics that can be a little bit troublesome.

The international trade process is becoming increasingly politicized in a good many countries, and that's not always good.

It is probably inevitable, but when economics becomes overwhelmed by politics, as often happens in countries in a given period of time, then we begin to do things on the basis of emotion when it would be a lot better if we would back off and think about where we are headed.

So I am concerned, and part of that concern is reflected in the fact that volumes of international trade declined this past year for the first time in many years, and that certainly is not a healthy trend because we all need international trade to increase the level of living in the world.

Without international trade, we are all going to deteriorate in terms of our economic well-being.

Most of you in this room are interested in agriculture, and if that is ever true in any case, it is true in agriculture, where we are very heavily dependent upon agricultural trade for our economic well-being.

Well, where do we go from here? What does that mean? What type of leadership should the United States provide in this whole international trade arena?

Well, you heard some of that this morning, I am sure, and I don't want to repeat everything that has already been brought to your attention today, but it seems to me that you have to start out first of all with productivity; competitiveness, if you will. That really has to be a part of any nation's trade policy if that nation is going to have any leverage, or if that nation is going to be able to exert any leadership, political or economic, in the world.

If we are not competitive—and we are never going to be competitive on everything, but if we are not competitive in a lot of products, both agricultural and industrial, we are going to lose our strength in this world of ours.

We are going to lose our economic strength, vis-a-vis a lot of other nations, including the Soviet Union, and we are going to lose our political strength, vis-a-vis a lot of other nations, including the Soviet Union. We just can't afford to have that happen.

The heart of our leverage on all things internationally is a strong, healthy economy—agricultural and industrial—and we have got to be there, and if we are not there because of our shortcomings in productivity or competitiveness, then we have got to figure out how to change it.

One of the points I made in my testimony is that the first thing you really ought to do when somebody is defeating you in this kind of international competition is pat him on the back. You have got to congratulate him because he is doing something right.

Let's not just throw daggers at the Japanese because they are doing a better job of producing automobiles than we are.

I think we ought to compliment the Japanese for doing a better job of producing automobiles than we are, and then we better figure out why and try to correct it, and that really means looking in the mirror.

It doesn't matter whether it is automobiles or steel or textiles or any one of a whole host of additional industries that I could enumerate for you here today.

If we are not doing very well in that type of international competition, we better figure out why, and we better begin to correct our own shortcomings—and that's really a question of how you generate that kind of productivity—so that we can become competitive once again.

Now, what really happened is that we got complacent. We were No. 1 in the world in a lot of things for a long period of time. At the conclusion of World War II we were No. 1 in everything.

What typically happens—and it happens to athletic teams just like it happens to nations—is when you get on the top of the heap, the first thing that happens is that everybody wants to knock you off, and they work awfully hard at doing so, which is healthy, it seems to me; and, second, you begin to relax a little bit, and about the time you begin to relax is when you get bruised.

We got bruised in terms of competition in international trade and our own productivity in a lot of ways over the last few years.

We finally awakened to that.

You have got to look in a mirror when things aren't going well, and none of us like to look in mirrors. We always want to look for scapegoats when things aren't going too well: "It is not my fault. It is that other guy's fault who was doing something to me."

Well, we finally in our business sector, our industrial sector have begun to look in mirrors.

I spend a lot of time talking to people in that sector now because our business at the Merc has become about two-thirds nonagricultural.

I must say one of the encouraging things I have seen is that there are more corporate executives in this country looking in mirrors today than there have been in a long period of time. They finally figured out that maybe they better shape up or they are going to ship out into bankruptcy, and we are beginning to see some very, very favorable trends in terms of correcting that.

Now, they have got a long way to go—and I am talking primarily now, of course, about our industrial sector rather than our agricultural sector—but I like what I see. I think we have got the capacity to turn that around and be competitive in a whole lot of things.

That's good. We need to do that, and we need to get a balance. There is no question that if this country puts its mind to it and if our major industries put their minds to it, we can still whip anybody in the world in international competition.

We can do it whether it be the Japanese or the Germans or anyone else.

We have got the capacity within this country to do precisely that. We just haven't been working hard enough at it in recent years.

On the agricultural front, we are doing very well indeed. As you know, there are a lot of people sitting in this room who are responsible for some of that tremendous productivity that we have in agriculture. But we can't sit on our laurels there either.

I wanted to float a word of warning there because, again, just because we are No. 1 in agriculture doesn't mean that we are going to stay there. That means we have got to continue to make the kind of commitment in research and development kinds of activities in both the public sector and the private sector to stay there.

Our advantages in agriculture are sure as heck not labor, and they are sure as heck not land.

They come in technology, in management and in the generation of the economies of scale. That's where we are beating the rest of the world in agriculture, and those are things that can be turned around on us if we don't keep out front.

We have got to stay out front in technology. We have got to stay out front in management skills, and we have got to stay out front in taking advantage of economies of scale. If we don't, we are going to have some of the same problems a few years down the line in agriculture that we have today in the industrial sector.

OK. Let's leave that basis of our strength—that is, our competitiveness—and assume that we are going to solve those problems, and then let's move on to the next step in the international trade picture, and that's the kind of policies we follow.

It doesn't do any good to be competitive worldwide if you still can't sell because of policies of one kind or another, either our policies or somebody else's policies, so we have to look at what's happening in the policy area to decide what our potential may be in agricultural or industrial trade over the next decade or two decades.

Well, the fact of the matter is, in my judgment, we have been making a lot of policy mistakes in recent years, and I am talking now primarily about agriculture, and everybody in the room knows that that is going to have some reference to situations like embargoes, or our export constraints, if we would like to call them that, that have been applied to American agriculture.

I am really not at all pleased with the environment that has developed in that area because it has cost American agriculture dearly over the last 10 years, not just in the embargo that was applied during the Carter administration—and that was the most costly one of all—but some of the recent constraints that have been applied in this administration to my own years in government when you will recall the embargo.

Those actions just simply are unwise, and we have got to get out of this.

One of the reasons that we are languishing in terms of agricultural prices today, even though this administration has been saying over and over again "We are not going to have any embargoes," is that nobody believes it.

Government in this country doesn't have credibility on the embargo issue, and justifiably does not have credibility because it has earned just the exact opposite reputation through a series of actions over the last 10 years. That is very damaging.

It seems ironic to me that when we get into a surplus situation, as we are in today in agriculture, that if somebody talks about, say a paid acreage diversion program, the immediate reaction is a very I negative one saying, "Well, gee, how can you even talk about paying farmers to put land out of production when there are millions of hungry people out in the word?"

Well, I agree with that kind of an assessment. I would prefer not to take land out of production either. I would prefer that we didn't have to have paid acreage diversion programs or the set-aside that is being followed by the administration this year or food reserve programs, or anything.

They all cost money, and certainly none of us can be very enthusiastic about trimming back production when there are millions of hungry people in the world, but the point is you also have to treat the farmer fairly in this overall scenario, and what we have really been saying to the American farmer in the past few years is, "When you have peaks and valleys in your price picture, we will let you take the valleys, Mr. Farmer, but we are going to keep you from having the peaks.

"When prices get up here, we are going to have price controls or some other kind of methodology that will keep you from that peaking out and getting that very lucrative period, or we are going to put export constraints on because of some foreign policy motivation and have that impact; but when it comes down here, you are on your own.

"We are not going to pay you to take land out of production or do any of those things that might help you price-wise."

Well, that's an irony that I find indefensible.

If we are going to take away the valleys, for all practical purposes—and I don't have any great problem with that. I would just as soon that we have government out of agriculture in as many ways as we possibly can, but I have got to say, "If you are going to take away any protection from my valleys, I want you to take away any constraints on my peaks as well, and then I will live through the peaks and the valleys and do all right," but we haven't been doing that.

We have been tying the hand of the American farmer behind his back, and that's not a fair and reasonable way to treat him.

In essence, the American farmer has been subsidizing the American taxpayer for the cost of our foreign policy, and I find that to be difficult to justify.

There is a very significant economic impact that we have had in agriculture as a result of foreign policy considerations of the last few years, and that's troublesome to me.

That leads into the next topic, which is the question of long-term grain agreements.

If any of you have a chance to look at the Wall Street Journal today, you will notice an article on that subject and some quotes from some administration officials saying that we really don't need a long-term grain agreement with the Soviet Union as much as we did a few years ago because they are going to buy substantial quantities of grain from us anyway.

There are a couple of other comments in there that I found a bit striking.

My comment there is that it makes no difference whether they are going to buy a substantial sum of grain from us with or without a long-term grain agreement.

What is important, in my judgment, is that they will buy more with the grain agreement than they will without a grain agreement, and to me that is a very strong motivation to get the thing negotiated, and I think we have delayed long enough in that endeavor, perhaps for sound foreign policy reasons.

I can't evaluate that because I am not a part of the Government, and I can't do that balancing between the foreign policy interests that we face, but it seems to me that if we can sit down with the Russians and talk about nuclear disarmament—and we just announced a few days ago that we are going to do that—then we ought to be able to sit down and talk with them about grain, because it seems to me that there ought not be any more controversy involved in talking about grain than there is in talking about nuclear disarmament. So I hope we get at that and get at it soon.

It is my judgment that the Soviet Union will not—for a whole variety of reasons—will not buy nearly as much grain from us without a long-term agreement as they will with a long-term agreement.

I also believe that we ought to rethink our basic policy on long-term agreements generally.

As you know, both the last administration and this administration have been very skittish about negotiating long-term agreements for a variety of very sound reasons.

There is no question that when you get a large amount of trade tied up in long-term agreements, that it makes the world market thinner. It makes it more volatile, and it has all kinds of implications, some of which are certainly negative ones.

The point of this is that you also have to learn to live in the real world, and the real world right now is one in which there are a lot of people that are executing long-term agreements, everybody but us, and what has happened is that a very substantial part of the world market in a number of agricultural products has been negotiated away from us into the hands of our competitors, and we ought to carefully reexamine the wisdom of becoming a residual supplier, not only of the Soviet Union, but a good many other importing countries as well, because everybody else has been negotiating long-term agreements, and we have been sitting on the sidelines.

The other element that is present in the agricultural picture—and then I will go to a couple of issues that are broader than agriculture—is the question of expansion of production by our competitors at a time when we are cutting back or at least attempting to cut back.

Everybody in this room knows that we have a surplus of production in some key agricultural commodities today. Carryover levels in feed grains and wheat are very, very high in the United States.

We have a huge food reserve program, an enormous amount of grain that is being held privately in farmers' hands in that reserve program.

It has been an effective program, so I have no criticism of that, but I am troubled by a couple of aspects of that situation, and the one that is most troublesome to me is that we are absorbing the burden of adjustment in the situation.

Nobody else in the world is adjusting. We are.

Now, how much we adjust, only time will tell, but the fact of the matter is that our competitors, such as our Canadian friends across the border, are expanding wheat production at the very time that we are trying to cut back wheat production.

Our Government has made a strong protest over that.

Seely Lodwick, your fellow Iowan who is now an Under Secretary for International Affairs, protested to the other exporting nations in very vigorous and vehement terms in a meeting in Canada just recently.

I hope that protest continues because it seems to me that we end up with the worst of all worlds if we, one, provide the whole world with food security by virtue of our reserve program which is being paid for by the American taxpayers, not anybody else's taxpayers; and then in addition to holding that food reserve for the rest of the world, we cut back on production at a substantial cost to the American taxpayer, and everybody else adds to their production and increases their market share internationally while our market share declines.

I just think that's an intolerable situation, and that's a question for negotiation and discussion with our fellow trading partners or, as some would say, maybe it is time to sit down and reason together.

I would think that if we sat down and reasoned together, we might jointy conclude that that's not a fair and sound way to play the game.

Now, that introduces some more elements of fairness into the overall trade picture, because as I indicated to you earlier, there really isn't—it really does you no good to be competitive in agriculture, or anything else, if there are impediments to those sales in other countries, and there are a lot of impediments.

You are all well aware of the impediments in Japan because they have made lots of headlines recently, and there is reciprocity legislation that has been brought to the attention of Congress and is flowing through as one response to that situation, probably not the best response, but it is a least a response, and certainly that's getting more serious attention in the Congress than it ever has in the past.

There are really three basic elements of unfairness in international trade that bother me, not only in agriculture, but on the industrial side too.

One of them is subsidy practices around the world.

A second one is dumping.

A third one is the problem of handling what trade people call safeguards.

Let me spend a minute on each of those three areas.

Ulrich Knüppel, who will be on your program this afternoon, the very distinguished agricultural consul from the European Community, knows that I can't resist the temptation to talk about subsidies.

Mr. Knüppel, I have just seen by the Wall Street Journal that your constituency back in Brussels approved a 10½-percent increase in price-support levels in agriculture just yesterday, I guess it was.

That just astounds me, and I realize that Ulrich has the unenviable task of trying to defend that kind of agricultural policy in the United States, and he will do that very well this afternoon, I'm sure, but that is certainly one of our very difficult problems.

The only way that the communities, as an example in this case, can compete with the United States in just about any market around the world on just about any agricultural product, is with a major infusion of subsidies, Government subsidies to make those products competitive, because the export levels in Western Europe on most agricultural products were way, way beyond ours and way, way above world prices.

Well, that's why it seems a bit incongruous to me to add another 10½ percent to those support levels yesterday because that means, in essence, that their export subsidies will have to go up another 10½ percent if they are going to sell anything in the next few months and few years.

The fact of the matter is, of course, whether it applies to a community or any other trading nation around the world, if you want to spend enough money, you can sell anything. If you want to give it away, generally speaking, somebody will take it, and if you want to pay your farmers $10 a bushel to grow corn and then sell it on the world market at $3 and pay a $7 differential out of your National Treasury, that's one way to engage in international trade.

I think that's a system that I find a bit difficult to comprehend, but it has happened; not to those extreme numbers, but it is a very significant and major problem in international trade today.

You see, what's wrong, philosophically wrong with that program—and economically wrong—is that all that a subsidy ever amounts to is a massive transfer of wealth from the exporter to the importer.

You know, who gets the benefit of the subsidy? The importer does because he can buy that product at a much lower price than would otherwise prevail, simply because the exporter is paying him to take the stuff, which is about what it amounts to.

I would think that all exporting nations would be a whole lot better off if they stopped subsidy programs and instead learned how to become competitive.

The second one is the dumping question, which is not entirely unrelated, but dumping is a little more subtle way to do it.

Dumping, as it is defined in international trade, typically, is simply a matter of selling at a lower price in the world market than you have in your home market.

If it is $5 a bushel here, you may sell it in the world market for, say, $2 a bushel, and you may do that without putting any kind of an export subsidy on it. You simply cover that additional cost in the budget somehow very quietly, and in not such a noticeable way.

We do that on peanuts, for example, for which President Carter used to get some guff.

Our peanut program is basically a dumping program, and we had some recommendations coming out not too long ago that really amounted to the dumping of our surplus dairy products on the rest of the world. "Let's buy them here and sell them down here."

Well, some people would argue that that's an unfair trade practice because if your cost of production is up here and you are selling it down here, you have to wonder whether that's very sound business.

Others would say, however, that as long as you cover marginal costs, if you are an economist, that you are justified in selling because you are at least picking up some of your fixed costs.

Well, economists have been debating this subject for decades and haven't come to any conclusions.

The only point I wanted to make to you today on dumping—and it applies more in the industrial area than in the agricultural area—is that I think the law is the law.

We have a whole lot of suits on steel that are being processed by the Government right now.

I must commend the Reagan administration for being more aggressive in enforcing its own dumping laws—that is, the U.S. dumping laws—than any other administration that I can remember.

Maybe they are not sound laws. As I say, a lot of economists would say they are unsound, but we ought to either enforce them or get rid of them, one or the other, and if we are going to have a dumping law on the books and if we are going to have dumping rules in the GATT, the General Agreement on Tariffs and Trade, then we ought to carry them out.

If we don't like them, we ought to abandon them.

The other one is safeguards. Now, safeguards again is not a major issue in agriculture except when you look at our—in variance to our own exports.

We don't safeguard our own agricultural production because basically we don't import much in the way of agricultural products. Dairy would be one exception to that.

The Japanese restraints on American agricultural exports are essentially safeguard kind of programs.

They are not quite safeguards in the true technical sense of the word, but basically a safeguard action simply means you want to keep from being inundated by imports in your country, and so you give your domestic industry, that is not very productive any more, some protection for a while until they become productive or competitive again, or if they are not going to do that, they should just phase out of existence.

Typically, safeguard programs apply to industries that are labor intensive and are really what we call declining industries. Footwear and textiles are a couple of examples here in the United States.

The problem with safeguards—there are about two problems. One is that we don't have any GATT rules on safeguards that are effective at all, and the second one is that safeguards, even when they are applied in a legitimate fashion, tend to be permanent rather than temporary.

Protection that is allegedly applied to keep from being inundated temporarily, like 3 years or 4 years, ends up being 13 years, and the protection goes on and on.

What happens is there is no motivation then to become productive. If you have got your government protecting you from more competitive products flowing in, you don't ever have to become competitive.

Our own automobile industry is perhaps a bit reflective of that. You have to have some incentive for people to do a good job, and one incentive is to make them compete, and if Government keeps them from having to compete, you never get very far.

That's what happened to Argentina. It happened to Chile, and you can make comparable arguments in a lot of their countries around the world.

We need to improve that safeguard picture, and everybody knows that we really need to get these negotiations going worldwide.

Well, let's assume that you can handle all of these unfair trade practices, and now you have got a competitive product, and you have got the barriers knocked down. You are still really not going to score all the points in the world in international trade unless you do a couple more things, and that's really a matter now of how you market, how you sell corn, soybeans, wheat, or whatever the product happens to be.

People are not going to come along and beat on your door and say, "Please sell me some Iowa corn." It don't work that way anymore. It worked that way pretty well for us during most of the 1970's because the dollar wasn't all that strong, not nearly as strong as it is now, and there were some years in which there was very short supply around the world, and people did knock on our doors.

Well, those glory years are probably gone, or at least they are gone at the present time, and that means that we have got to demonstrate some marketing skills, so that means you have got to think about what do you sell and where do you sell it.

I am only going to spend a couple of minutes on this because we just don't have the time.

In terms of what do you sell, it seems to me that for agriculture right now—and I am not going to analyze the industrial picture here because I don't have the expertise to do that.

On the agricultural side, it seems to me that there is a good chance that the economies around the world are going to improve very significantly during the 1980's.

We have begun to learn how to live with the energy crisis. We have been in the throes of a recession. We are in a situation where things can't get much worse. They have got to get better, and there are some other factors coming along that are going to be helpful, in my judgment, to expand economic growth around the world in the 1980's.

That being the case, there is going to be an impact on agricultural demand, and that puts us in the enviable position of being able to meet that demand.

By and large, it seems to me that people are going to upgrade diets, when they have more money to spend, in the same way they have for hundreds of years.

They are going to eat more protein sources like meats and poultry products, and they are going to eat more fresh fruits and vegetables, and so on, the very same thing they have been doing for a long period of time.

So by and large, I think, agriculturally, our products that were the winners in the 1970's are going to continue to be the winners in the 1980's.

That's pretty good news for Iowa because you have got a good chunk of those in both feed grains and soybeans.

Where can you sell them in a different picture because in my judgment the buying side of that is going to change rather significantly during the 1980's from the patterns that we have had in the past.

Up until then Western Europe had been by far our biggest purchaser of agricultural products. It is going to continue to be an excellent market for us, but Asia has now passed Western Europe as a market for U.S. agriculture, and in my judgment that edge is going to continue to widen.

I think our greatest market potential by far over the next 20 years will be in Asia, in a whole host of countries, all the way from Korea to Japan, Taiwan, Malaysia, Hong Kong, Singapore, the Philippines, and, of course, the People's Republic of China—a tremendous array of countries there. They will have very, very impressive purchasing power, by and large much higher economic growth rates during the 1980's and the 1990's than will the rest of the world.

The other basic category will be emerging developing countries, developing countries have money, by and large those countries that have mineral resources or oil resources; the Mexicos of the world, as an example.

That's where our markets will be in the 1980's and 1990's.

We have got to identify them, pinpoint them, and then design our products to meet those markets.

You don't design corn much because that's a fungible product, but when we are talking about processing products, processed food products, you have got to design for the consumer in those markets.

Let me just quickly summarize then.

What we have really got to do is five or six things in international trade, it seems to me, as we move on into the 1980's.

The first thing we have got to do is to make sure—whether we are talking about your agricultural products or the industrial products in downtown Chicago, we have got to become more competitive.

We just can't afford to simply fight defensive battles in international trade because if we are fighting defensive battles, we are going to be thrown into a protectionist posture, and that's not the route to go. It is sure not the route to go for agriculture.

So we have got to make sure that we are out in front, in terms of competitiveness and productivity, in a good number of products.

Once we have gotten to that point, we have then got to work on making sure that the rules of the game are fair, and I think we have to very aggressively attack other people's trade barriers.

I think this administration has been more aggressive than any we have had in a long time, but I suspect we may still have to do more because there are some very intractable trade barriers around the world.

I must say, we cannot simply criticize other people in this regard. We have some of our own.

We just put a sugar program in existence in the last 2 or 3 weeks in this administration that I think is one of the most God-awful programs that I have ever seen in my life, so we are not totally free from criticism either.

We need to work on knocking down trade barriers so that we can free up these markets and then let our competitiveness flow into those markets, and we need to stop making foolish mistakes in terms of restraining our own exports. I am talking about embargo actions and quasi-embargo actions, if you will.

We need to permit that product to flow, and if we are holding our own exports down, we have got nobody to blame for it but ourselves.

It seems to me we need to find a better way to handle foreign policy disputes than by using agriculture as a weapon every time we turn around, particularly when we typically fall on our face when we attempt to do precisely that.

Then we need to work on making sure the policies that are followed around the world that impact on us make some sense, the whole question of how we can tolerate somebody else's export market share going up when we are forcing our own down.

We have got to sit down and reason with our trading partners to make sure that they are not taking advantage of us in a way that is just totally unjustifiable.

If we can get an additional element, that very significant element of fairness, into the system, and we have got the competitiveness to go along with it, then it is simply a matter of marketing skills, of going out and identifying those marketing opportunities that we have and then going out and very aggressively selling.

That's really the way the trade picture ought to unfold, and I hope that we will have the kind of environment during the 1980's and the kind of national leadership, under whatever administration happens to be in power in the 1980's, to establish that and help create that kind of environment so that people like yourselves, who are very competitive, can go out and compete.

It has been a pleasure to be here today. I think you are going to very much enjoy your afernoon program.

Mr. Lounsberry, if you want to try to do a question or two, I would be glad to do it, depending on what your time schedule is.

Mr. LOUNSBERRY. Well, we have a pretty tight timeframe, but I certainly do want to thank you for sharing your thoughts with us.

Is there any who might have a pressing question, just one?

[No response.]

Mr. LOUNSBERRY. Well, thank you very much. We will take about a 5-minute break, and then reassemble in the next room.

[A short recess was taken.]

Mr. LOUNSBERRY. If you will give me your attention, we will continue with the remainder of this afternoon's session.

This session focuses on the diplomatic and foreign policy aspects of international trade.

We are honored to have such a prestigious panel from the People's Republic of China, Japan, the European Community, and from the administration.

Many thanks to all of you.

As in this morning's session, we urge you speakers to keep your initial remarks to 15 minutes.

Our first speaker this afternoon is Don deKieffer, General Counsel in the Office of the U.S. Trade Representative.

He is the No. 3 man under Bill Cropp and, Mr. deKieffer has been deeply involved in American trade negotiations throughout the world.

After graduating with a B.A. degree from the University of Colorado in 1968, Mr. deKieffer attended Georgetown University where he received a juris doctorate degree in 1971.

For the next 9 years, he was an associate and then partner of Collier, Slannon. Rill & Edwards in Washington. D.C.

In 1980 he formed the firm of deKieffer, Berg & Creskoff. His entire professional career has been concentrated in the field of international law.

In 1981 he was appointed to the No. 3 position in the Office of the Special Trade Representative. As General Counsel, he plays a significant role in both setting policy and in multilateral negotiations.

Please welcome Don deKieffer. [Applause.]

STATEMENT OF DONALD E. deKIEFFER, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. deKieffer. Mr. Lounsberry, in the introduction you mentioned the fact that in the last 9 years I have been in private practice. I have only been in Government now for about 14 months, and it is still a little hard for me to say things like, "I am from the Government and I am here to help you."

One of the things that I did in preparing myself to come here was to try to find an apt description for international trade.

I was told a story, that I will repeat to you here, that adequately expressed the idea, something I could really relate to in describing what international trading was, and what the U.S. Trade Representative was all about.

It seems that there was a Ford automobile dealer here in Des Moines about 1½ years ago that was having terrible problems with imports. As a matter of fact, they were such terrible problems that his dealership went bankrupt.

He was out of work, and he went down to Florida.

He was walking along the beach. and was very despondent. He was contemplating suicide. His wife had run off with another man.

As he was walking along. thinking about ending it all, he stumbled across a bottle. He rubbed this bottle, and out came a genie.

This was just a minor genie. It wasn't one of the major ones that you'd find in southern California.

The genie said, "I can only give you one wish," and the guy said, "Well. I'll tell you, the only thing that I would wish for right now would be to be an import automobile dealer in a major city."

The genie said "Done." and he became a Chrysler dealer in Tokyo. That's what we are all about.

I would like to back up a little bit and deal with the kinds of things that Clayton Yeutter described to you at lunch.

Let me be very brief on the history of where we stand, and more expensive on both where we are and where we are going in terms of the country and in terms of this administration.

In about 1948, the United States and many of our major trading partners formed something called the General Agreement on Tariffs and Trade.

Now, the basic objective of GATT, as the General Agreement on Tariffs and Trade is called, is to reduce tariffs among all the great trading nations of the world.

Since that time, we have had a series of what are called negotiating rounds, the most recent of which is called the Tokyo round.

In these negotiations, the goal has been a mutual reduction of tariffs, and overall, we have done a pretty good job of it.

Right now the average tariff rate in this country is around 7.5 percent.

We also have something called the "generalized system of preferences" for less developed countries where commodities come in duty free. Including GSP, our average tariff rate is 4 percent.

As we reduced our own tariffs and succeeded in reducing tariffs in our export markets to a low level, the lowest they had been in recent history, we saw the growth of something called NTB's. These are nontariff barriers to trade, which are best described as a disease that was invented in Geneva.

Nontariff barriers are as adverse as the international community will allow them to be.

Subsidies distort international trade, as do quota restrictions, import fees, restrictive classification schemes, and excessively stringent technical standards. These are all nontariff barriers to trade. Our trading partners maintain a wide variety of them, and our own country has a few.

So we attempted to reduce these NTB's by negotiating a series of so-called codes—the subsidy code, the Government clearing code—to decrease discrimination among countries bidding on Government contracts, and to encourage freer trade.

In 1979, these codes were brought back to our Government in Washington and presented to Capitol Hill. The Congress incorporated many of these codes wholesale into U.S. law.

Almost 3 years have gone by since those codes were negotiated. The GATT was founded more than three decades ago.

Since that time the United States has been leading the free trade parade, and right now we are looking over our shoulder to see who is following us.

Now, it is undeniable that free trade has been good for this country. It has been very good for the international trading system, and it has been very good for our trade interests, one of the reasons free trade has been very good for the international trading system is because the United States has been leading the free trade movement.

The most recent round of negotiations I mentioned a moment ago, the Tokyo round didn't focus on tariffs, but on the NTB's, and again the United States was the leader.

What we are seeing today are some of the results, and one of those results is that the United States has indeed put itself in the leadership role, but there seems to be a shortage of followers.

Free trade is becoming increasingly good for some of our trading partners and less good for the United States because of the NTB's that some of our trading partners maintain.

Now, I am not suggesting for a moment that the GATT, or the free trade system, or the codes that were negotiated in Geneva haven't been good for everyone, but to the extent that this country has been a leader and means what it says in negotiations—the United States is at a disadvantage.

Today at lunch you heard Clayton Yeutter say in his remarks that we need to look in a mirror to ascertain why we are having difficulty in exporting or why we are having difficulty with imports.

I would like to suggest to you that he is right. We should look in the mirror.

We have lost our competitive edge in certain industries and certain sectors.

I will also suggest to you that there are two other places we should look to see why we are having some of these difficulties.

First we should look at some of the trading practices of some our trading partners.

We were not successful in getting our trading partners to dismantle their unfair trade practices that affect the United States, even though we were able to get these codes.

In the Tokyo round we negotiated something called the subsidies code, which seems to say that every country in the world has to get rid of export subsidies.

If you were to read the code, even though it was written by lawyers and it is fuzzy enough to satisfy lawyers, it could mean one thing one day and something else the next—you might expect that great progress would have been made, in the 3 years of the codes existence, in abolishing export subsidies. You could count the subsidies that have been done away with on one hand. They would even be hard to find. That's the reason that in the last 15 months the Reagan administration, through the Trade Representative's Office, has filed more cases in the GATT than have been filed in the previous 15 years to enforce our rights under these international agreements.

Now, this isn't a criticism of GATT as an institution or a criticism of the codes. What we want is to see exactly what our rights are, and to enforce those rights.

There can be no free trade unless that trade is fair, and by fair I mean playing by the rules that we all agreed to, not interpretations of rules unilaterally imposed on the United States. The United States has had laws against foreign export subsidies since 1896.

We have had laws against dumping since 1916. We have had a subsidies code for 3 years. We have had very explicit laws with regard to dumping, amended in 1930 and 1979.

It is about time, in my view, that we started enforcing it fully and effectively. The competitive genius of America must be allowed to compete fairly against imports and compete fairly in world markets.

Let me give you a couple of examples of how subsidies work.

Export subsidies, as Clayton Yeutter described at noon, in effect pay the importing country for importing goods they would not have otherwise imported because of a price differential. In other words, the exporting country's taxpayers are underwriting the final consumers cost of obtaining that particular product at that price in the importing country.

Today you can buy a French chicken cheaper in Riyadh, Saudi Arabia, than you can in Paris. There are two effects to that.

One, the French cheat their own consumers at home, and two, they subsidize OPEC, if you can believe that, by subsidizing the export of chickens to the Middle East.

Now, these subsidies are not maintained for economic reasons. They don't make any economic sense. They are maintained for political reasons, just as some subsidies in the United States are preserved for political reasons.

While we do have some protective devices in place for American industry and for American agriculture, these are, by and large, reactions to the kind of practices that some of our trading partners engage in.

Let me give you perhaps the best current example of that, if I can: the recent imposition of quotas and fees for sugar.

This administration is philosophically opposed to quotas. We are philosophically opposed to extra import fees, and that opposition extends to sugar.

This administration does not like the policy we have been forced to take. Why have we done it if we dislike it so much?

The reason that these quotas and fees have been imposed is that increased production of sugar has caused the price of sugar on world markets to drop by more than 50 percent in the last 18 months. From 20 cents a pound to less than 9 cents a pound. Why has the production of sugar taken such a dramatic jump? Was it the fault of U.S. sugar producers? The answer to the latter question is "no," the precipitous decline in sugar prices has not been caused by U.S. growers. The answer to the former question is a price support system that the European community maintains.

Lawyers like me and lawyers in other countries are asking, "Are we going to allow the American sugar farmers to go belly up?" When we can produce sugar more efficiently here than they can in Europe. We will not allow the American sugar farmer to be driven out of business because of what we regard as unfair trade practices on the part of Europeans.

We currently have a case pending in the GATT, along with 10 other countries, challenging the European practices. We are still pressing forward, and like all litigation, it takes time.

It has been argued that the United States is not taking care of itself in terms of sugar and in terms of some of the other things, but the American taxpayer and the American consumer, should not have to pay for practices that are illegal under an international agreement.

This is not an agreement the United States has imposed on someone else. This is an agreement that was voluntarily entered into by our trading partners.

Certainly we have to take some short-term measures to protect our farmers until we get the litigation through the GATT, hence the quotas and fees. We cannot tolerate forever these illegal policies of our trading partners. Many of our trading partners maintain very similar programs. These policies vary from place to place and from year to year, and cannot be tolerated by this country. Having a free enterprise system means—capitalism means—the freedom to fail fairly. We can't introduce into that system illegal and unfair practices which defeat the natural tendency of the free marketplace to promote economic growth.

This administration opposes export subsidies on principle. We have tried to stem the tide of subsidies by insisting not only that our trading partners abide by fair trade rules, but also that those international rules of trade conduct be strictly enforced.

Some people have suggested that that policy will take too long. Perhaps they are right.

Some people have suggested that the international rules themselves are defective, and perhaps they are right as well.

Some people have suggested stricter enforcement of our countervailing duties and antidumping laws. Perhaps those people are right. I suggest that the enforcement of the international fair trade rules is essentially and fundamentally the most free trade position any administration can take, we don't know whether those international rules will work, but before we throw them back in the water, it is important that we test those rules.

I'd like to take a moment to discuss another suggested approach: reciprocity. Now, reciprocity is another one of those words that lawyers twist into meaning what they want it to mean, so let me describe to you first what the administration believes reciprocity is not.

First, reciprocity is not to be measured on a country-by-country or a sector-by-sector basis.

We, for example, don't import very many agricultural products. We certainly don't want our agriculture exports limited by our volume of agriculture imports.

There are some things we make that other countries don't, like commercial airliners and computers. We wouldn't want "reciprocity" measured by our actual volume of trade in these sectors.

Second, reciprocity cannot be measured in terms of trade balances with individual countries. Currently we have about an $18 billion trade deficit with Japan, and we have about a $15 billion trade surplus with the European Community.

Does the fact that we have a great surplus mean that we have reciprocity with Europeans? Of course not.

Europeans have all sorts of trade barriers against the import of American goods, but nobody suggests that even if Japan got rid of every trade barrier they had, the United States would miraculously reverse our trade deficit with Japan.

It is very important to recognize too that the administration believes that we already have multilateral reciprocity in trade of goods under the aegis of GATT. GATT guarantees the most-favored-nation treatment to all its signatories. That's what the GATT is all about.

There are certain areas in which GATT is probably deficient, particularly in the area of surplus, which currently accounts for a substantial part of U.S. trade and effectively all of our trade surplus outside of the agricultural sector. Three factors have to be given almost equal weight in analyzing why we are where we are.

Some of it is due to our own complacency. In certain sectors we have become complacent because we have been so strong in the past. Our competitors proved hungrier than we were.

It is equally as true that some of our trading partners have been carried along by American generosity and what we could afford to give and give and give.

Today many of our major trading partners are as strong as we are in certain trading areas. The time has come for those countries to start pulling their share of the free trade load as well.

Where is the third and final place you should look to determine why we are where we are? It seems to me that you wind up squarely in front of my desk and Larry Brady's desk.

The question then is, what kind of policies do we have and are we contemplating?

One of the things this administration is very cognizant of is, we know who pays our salaries. It is not the Government. It is you, the taxpayer.

The fact is that this administration—this government—hasn't forgotten and won't forget who pays our salaries.

Neither Larry Brady nor I, nor Denis Lamb, regard ourselves as internationalists, in the sense that we work for an international organization. We work for you.

My job is not to be a neutral arbiter. My jobs is to be an advocate for the United States, and that means an advocate for you.

If we are not doing our jobs, then you ought to take a look at that third factor and say, "You are part of the problem."

This administration believes that the United States has the ability to compete fairly in international markets. The record of this administration shows that we have been aggressive in our pursuit of U.S. international trade interests.

We have made sure that our international rights are protected, and even though we haven't won all of our cases we are still out there plugging.

We have only had 15 months in office and cases take a while longer to get through. We expect to see some action in the next couple of weeks. For example, one case we have going through GATT right now on wheat flour, where American wheat flour sales internationally have been depressed because of what we regard as unfair and illegal practices by the European Community in subsidizing the production of wheat flour.

We have been active in seeking remedies in the agricultural sector, and we expect some results.

We expect to keep our people whole, and I am sure we will.

Thank you. [Applause.]

Mr. LOUNSBERRY. Our next speaker is a native of New Hampshire. He received a B.A. degree from Catholic University in 1962, with a joint degree in political science and economics.

He completed most all of his work, except for his dissertation, toward a doctorate from the same institution.

Most of Mr. Brady's professional career has been spent in the public sector, and after he served as a Senate staff member, he is now currently serving as point man on all administrative actions with regard to export restrictions, whether such restrictions are based on foreign policy, strategic, or short-supply grounds. Mr. Brady implements decisions.

It is an honor to have him here today. Please welcome Lawrence Brady. [Applause.]

STATEMENT OF LAWRENCE BRADY, U.S. ASSISTANT SECRETARY OF COMMERCE FOR TRADE ADMINISTRATION

Mr. BRADY. Thank you.

It has been just about a year ago, last year's World Trade Week, that I was in Iowa, and I have to tell you that I used your example in the past year a number of times in speeches throughout this country in proving that we can export and increase our exports not only, as you know—I guess yours are pretty well evenly divided between the manufacturing and agricultural area—to improve, as mentioned at lunchtime, the competitive position of the United States, but to improve our balance of payments and inevitably, as a result, what one would call our power, foreign policy power, because I think we admit—I think even Mr. Yeutter would admit that economic power gives you foreign policy power.

As I get into my remarks, I may take a few exceptions, that there is a reverse of that factored into the process. You must at some point take a look at how it impinges on certain areas of the world, particularly with regard to your adversaries.

The question this panel addresses is what happened to free trade, and specifically my mission was to address the question of East-West trade.

I will be very blunt with you. It never existed in East-West trade, so it is not a question of what happened to it.

Now, in the 17 months this administration has been in power, we devoted considerably energy to working with our allies in what we believe is a cooperative effort to refashion East-West commercial ties to protect the financial and security interests of the Western World.

There has been a full and vigorous debate within the alliance over the course we should set in our economic relations with the Communist world.

Just a few days ago Prime Minister Pierre Trudeau called upon President Reagan to "decouple" East-West trade from Soviet behavior on political questions.

He expressed the hope that the alliance would continue to push the administration to abandon "linkage" on trade and security issues.

Trudeau's voice joins many in the international banking and business community who are convinced that East-West economic interdependence is a force for greater peace and understanding.

They believe that the superpowers must learn to put ideology aside and work together to make a better world.

Now, if this sounds familiar, it is because these rationales provided the framework on which détente was shaped.

Ten years ago this month the visit of the President of the United States inaugurated the historic demarche on which so many hopes were based.

Basically, as stated often by former Secretary of State Kissinger, our objectively bringing the Soviets into the world trading system and in exporting Western high technology to them was to achieve a degree of political control over that behavior, both internationally and domestically.

When we look back at the last 10 years, I ask you, is it possible to say that the Soviets have demonstrated restraint in their conduct internationally or abandoned any of their aggressive goals?

It seems to me that on the contrary, Soviet military power has now projected far beyond Eastern Europe, either directly or through proxies.

Soviet leaders are directing a massive covert and overt effort to raid the West's technological secrets to be infused in their military-industrial infrastructure.

They are, in the words of a power, attempting to establish hegemony over the world.

The U.S.S.R.'s opening to the West in the early 1970's was of greater benefit to the Soviet military industrial complex than it was to the Soviet consumer, and there should be no doubt about this.

Aside from grain, Soviet import strategy was to bring in Western technology as a means of creating conditions favorable for the expansion of Soviet economic and military power.

By the beginning of the last decade, the U.S.S.R.'s situation had changed radically from the postwar period, when Soviet leaders were forced to choose self-reliance over interdependence with the West.

Stalin, in his last major contribution to the Marxist theory, predicted that the Socialist and capitalist nations would continue to exist side by side for many years as separate systems; in his phrase, "two world economies."

He believed the superiority of central planning and public ownership of production would inevitably be established, however.

Now, his successors have abandoned the traditional Soviet policy of self-sufficiency in favor of selective economic integration with the West. They did so for two very important reasons.

First, far from establishing its superiority, socialism was everywhere proving itself less than a success.

Living standards throughout the Soviet bloc were not rising relative to the West. They were falling.

Communist societies rebelled. The revolts in Berlin in 1953, Hungary and Poland in 1956, and Czechoslovakia in 1968 demonstrated the shakiness of the U.S.S.R.'s grips on its satellites.

Trade with the West was seen as a necessary substitute for political and economic reform which could undermine Soviet hegemony in Eastern Europe.

The other reason for the opening to the West had to do with diplomacy, the need to counter a relatively successful U.S. strategy which in the words of George Kennen, was designed to establish "a long term, patient, but firm and vigilant containment of Russian expansive tendencies."

This week marks the 35th anniversary of congressional ratification of the Truman doctrine.

The Soviets feared the containment policy because it posed an insurmountable barrier to their imperial ambitions.

They knew that, if maintained, containment would spell the end of their empire in Eastern Europe and, quite possibly, Russia.

They also recognized that armed confrontation with the West was out of the question. Conflict was therefore shifted to the nonmilitary sphere.

Now, as Soviet leaders looked out beyond the Kremlin walls, they began to recognize the forces in the West that could, with proper encouragement, assist the Socialist cause.

The Third World was teaming with revolutionary and nationalist movements.

Anticolonial struggles were underway in areas where the capitalist nations, particularly Europe, were dangerously dependent on vital raw materials.

Quite possibly, these economic lifelines could be severed, or at least threatened.

Now, as for Europe, the greatest prize in the Soviet strategic thinking was the U.S.S.R. hoped to neutralize United States-Europe ties through expanded trade and political contacts.

Europe was, after all, energy and raw material poor, but rich in technology and investment capital.

The U.S.S.R., on the other hand, possesses vast, untapped energy reserves, but lacked the know-how and capital to develop them rapidly.

The Soviet bloc also had available a huge pool of underutilized labor.

The Soviets anticipated that Western banks and manufacturing companies would redirect billions of dollars of investments away from the Third World to the U.S.S.R. itself.

Détente, then, from the Soviet perspective, fulfilled crucial domestic and foreign policy objectives. So the decision was taken, as in the 1930's, to use the strength of capitalism to increase Soviet State power.

Western companies, as they were in the 1930's, were again invited to invest freely in the Socialist homeland.

Hundreds of turnkey plants using imported equipment were constructed in various manufacturing sectors.

The Warsaw Pact's industrial base received some of the latest advances in free world production and engineering techniques.

International bank, temporarily saturated with petrodollars from an energy crisis to which the Soviets lent political support, invested the new wealth in Eastern Europe.

The accumulated debt from this spending spree now hangs like a dark cloud over the financial system of the Western World.

Now, in 10 years the level of economic interdependence between the Communist and non-Communist world has grown enormously.

From Stalin's two parallel systems, we are now in a context where the health and the prosperity of the capitalist nations depends, in part, on our commercial relations with the Soviet bloc.

Many question whether we were right in assuming that the U.S.S.R. would ever abandon its commitment to military and political expansion.

I think even Prime Minister Trudeau must admit that, unfortunately, this question must be answered in the negative.

The relative Soviet prosperity of the 1970's has not dulled the ideological fervor which animated the Soviet drive for world supremacy since 1917.

What détente means is that the Soviets still give priority to armed struggle, but also give attention to struggle in the economic, poiltical, ideological, and diplomatic arenas.

The great tragedy of the 1970's is not that we gave détente a try. The world deserved a respite from superpower confrontation.

The tragedy is that we never took the Soviets at their word, which was plain enough.

So where do we go from here?

We need first to begin with an awarness that today, with United States-Soviet military balance so finely tuned, we need to take seriously the Soviet call to compete economically, ideologically, politically, and diplomatically.

In economics, we need to blunt Soviet initiatives to use trade to divide and weaken the alliance.

The flow of our investment and technological resources to the Warsaw Pact's industrial base must also be drastically slowed.

The U.S.S.R. should be forced to bear the full cost of its military buildup.

East-West commerce should be conducted on a businesslike basis, and generous subsidies from Western governments should be eliminated.

We are not opposed to trade in nonstrategic commodities with the Soviet bloc on the basis of mutual advantage.

I might disagree somewhat with my friend who spoke to you this morning on what mutual advantage means, however.

Politically, we must frustrate efforts to manipulate Western public opinion to the benefit of Soviet foreign policy.

Churches, labor unions, and business institutions must constantly remain vigilant to that threat.

Ideologically, we should take every opportunity to expose the utter moral, political, and economic bankruptcy of the Soviet system.

Poland's courageous people, to whom I believe we all owe our full support, have exposed the big lie that the worker is emancipated in the Soviet system, while in the West he remains in chains.

The spiritual revival that is now underway in some countries in eastern Europe deserves our support.

In diplomacy, we can secure some of our most important victories, I believe.

Through free trade we must knit together a community of free nations with common values, including the commitment to democratic institutions.

By relying on what President Reagan refers to as "the magic of the marketplace," we can lay the foundations for a prosperity which will endure for generations, but that also means doing the things that Don deKieffer mentioned to you a few minutes ago about keeping the basic economic well-being, the industrial base of this country, in a state that it is not deluged with goods that are dumped or subsidized by foreign countries.

We have already made important progress in meeting some of these goals.

At the Ottawa Summit, President Reagan discussed East-West trade and security issues with the leaders of other industrialized nations.

He received a commitment to work with us to revamp the COCUM multilateral export control system, which restricts the flow of security-sensitive technology to the Communist world.

The first high level meeting of COCUM in more than 25 years was held this January, and a followup meeting will be held in the near future.

We know that there is a lot to be done, and that progress in each one of these areas is not going to be easy, but we have already made substantial progress; for instance, in getting the first meeting in 25 years, as I just mentioned, with the allies, and getting a commitment to tighten the control system at the top, the high technology top.

We have made progress in continuing the liberalization of our export control policy to the People's Republic of China, in being willing to export to them twice what we were willing to export to countries prior to Afghanistan.

We are attempting, on a realistic basis, to make a differentiation in our policies toward Eastern Europe, when those Eastern European countries are attempting to establish a pluralism within their government, within their society, and are trying to dispense themselves from the policy of the Soviet Union.

We must work hard to reduce the level of Western government subsidies, which channel credits to the Soviet system, loans which are made to the Soviets for the sale of commodities which none of you in this room could get the same interest rate on.

We must work also with the allies to improve cooperation in the energy area so that we do not allow the Soviets to achieve the degree of political leverage over our energy reliance, the energy reliance that all industrial powers have on imported energy.

That's the work program for this administration. We have begun that work program.

Again, I want to stress, and particularly because I know there is a slight interest in this audience in grain exports, that we are not against all trade with the Soviet Union, but what we have done is to take a realistic appraisal of what happened in the last 10 years, and came to the conclusion that our policy must be sophisticated; that it truly is not free trade in the sense that we talk and enjoy free trade with our allies in countries in the Western world; but it is rather what we call strategic trade, which is more finely tuned than that with the West.

Thank you. [Applause.]

Mr. LOUNSBERRY. Thank you, Mr. Brady.

Our next speaker was born in New York but at the age of 11 he returned to Japan.

After graduating from the University of Tokyo in 1952 with a law degree, he received a B.A. degree from Amherst College in 1955.

Mr. Michio Mizoguchi entered the Japanese diplomatic service and served in the Philippines, Saudi Arabia, and Switzerland.

In 1976 he became Deputy Director General for the Economic Affairs Bureau of the Ministry of Foreign Affairs.

Now, listen to this: Michio Mizoguchi, Envoy Extraordinaire, Minister Plenipotentiary, and Deputy Chief of Mission.

Mr. Mizoguchi is Japan's No. 2 man in the United States.

We are honored to have you here in Iowa today. [Applause.]

STATEMENT OF MICHIO MIZOGUCHI, MINISTER AND DEPUTY CHIEF OF MISSION, EMBASSY OF JAPAN, WASHINGTON, D.C.

Mr. MIZOGUCHI. Thank you for the kind introduction, Mr. Lounsberry.

Ladies and gentlemen, I am very pleased to attend the Iowa State Trade Conference at the invitation of Senator Jepsen and other officials.

They say that the next pasture is always greener than your own, but I think very few people will contest that the pastures in Iowa are greener than anywhere else. [Applause.]

I am also happy to come to this university, which is very well known for advanced agricultural research and technology, and it is probably the leading university in the world.

Also I have been enjoying the conference very much because I heard all speakers, and from the ladies and gentlemen with whom I have spoken to in the audience, I am very encouraged to find that people in Iowa support the idea that trade, world trade should be expanded along the free trade principle. That is very encouraging for Japanese like me.

Well, last year the United States exported $22 billion worth of goods to Japan. Of this, $7 billion was agricultural goods. This accounts for about 15 percent of American farm exports, and I understand 1 acre in 3 in the United States is devoted to exports, so this would mean that about 1 acre in 20 is devoted to exports to Japan.

Japan is the largest single market for American farm products. In fact, my country is now the world's largest importer, largest net importer of farm products.

Our food self-sufficiency ratio is only 53 percent. This is the lowest among the major industrial nations of the world.

In simple terms, we import half of our food needs.

Many people in Japan feel that this is too low. In national security terms, the fact that a nation has to depend on half of its food from foreign countries scares many people, but this is a fact of life.

As you know, in Japan during the Tokugawa period, we had almost no trade with any foreign country for 250 years, and during that time, our population was 30 million, so it was stable at that level. So you can, in general terms, see that our four islands can produce only enough food for 30–50 million people.

The fact that we can support 110 million people is due to foreign trade and especially to food exports from Iowa and other States in America.

Of course, I have heard the story that if we did not grow rice and grew only sweet potatoes, it could be that Japan could support 110 million people, but according to the experts, if Japanese ate only sweet potatoes, our productivity would go down. So we would like to stick to our present diet.

Well, in any case, 40 percent of our food imports come from the United States. This means that we depend upon the United States for 20 percent of our food needs.

It is also stated in the American press that Japanese automobiles have 30 percent of the market in the United States, and why don't American products have that share in Japan.

Well, there is your answer. American farm products have at least 20 percent of the Japanese market, and this is on average, so the United States is a vital and crucial source of supply of food for Japan.

No wonder that Japan accounts for a large percentage of your farm exports, product by product.

In 1980, Japan accounted for 47 percent of your grain sorghum exports; 19 percent of your corn exports; 18 percent of your soybean exports.

Incidentally, I was recently reading a book by some Harvard professors which says that when Commodore Perry went to Japan in 1853, he took a botanist with him, and the botanist brought back from Japan a vegetable, and guess what that was? That was the soybean.

I have since consulted experts, and they say that probably the soybean came from Mr. An Dong's country, China, to Japan, and after Commodore Perry, it also came to the United States from China; but be that as it may, it is most interesting that the soybean, which is now a very important product for Iowa, comes from the Orient. So this is a good case on the benefits of international trade.

Japan's self-sufficiency ratio for grains is only 33 percent. It is 69 percent for food grains, and only 2 percent for feed grains. But we also depend upon American nongrain exports.

In 1980, 58 percent of your beef exports went to Japan.

Now, we are aware that the United States would like to sell even more beef to Japan, but we hope you will remember that we are the No. 1 market for your beef exports.

We take 33 percent of your pork exports—something which is a surprise to everyone, I'm sure—59 percent of your lemons and limes, 45 percent of your grapefruits and 15 percent of your oranges. We are second in the market for American oranges.

When the United States suspended soybean exports to Japan in 1973—and this was referred to by Mr. Yeutter in his speech at lunch—Japan experienced a great shock, comparable, if not greater, than the shock we experienced later during the two oil shocks.

We hope that the United States will be a reliable and stable supplier for our food needs.

On the other hand, Japan will certainly continue to be a stable and reliable and growing market for American farm exports.

As the world's largest food importer and its largest exporter, Japan and the United States are truly interdependent.

Having made these remarks, I do not wish to look over the fact that we do have some trade problems.

In 1981 there was a U.S. trade deficit of $16 billion in our bilateral trade, and Japan had a large surplus in manufactured products.

This large imbalance has intensified protectionist pressures. While Japan is convinced that the imbalance is mainly caused by economic factors, such as the exchange rate brought about by, primarily, high interest rates in the United States, we are doing all we can to lower trade barriers in Japan, to encourage increased imports from the United States and other nations, and I am very happy to hear that Mr. deKieffer also agrees that the trade imbalance is not entirely caused by Japanese trade barriers.

Well, what is Japan doing?

In April we reduced our Tokyo round tariff reductions by two extra stages. We brought forward the reductions scheduled for 1983 and 1984 into 1982.

As a result, our tariffs came down by 16 percent in April.

For example, the tariff for pork meat came down from 8.1 percent to 6.5 percent in April, and in a few years when these reductions are completed, the full tariff will come down to 5 percent.

In January, we announced improvements in our customs and other import procedures.

You may be happy to hear that—this is not a Government restriction—the Japanese Tennis Federation yesterday finally agreed to import American tennis balls for Japanese tennis matches, and we are very happy about this.

We have also set up a trade ombudsman's office to receive complaints directly from American and other foreign businessmen, and the Japanese Government is now examining further trade measures which are expected to be announced by the end of this month, just before the Versailles Summit meeting.

The American side has expressed its interest in the relaxation and removal of quotas on beef, oranges, and other miscellaneous items.

The United States is also interested in lowering agricultural tariffs further in Japan, as well as improving certain import procedures.

On the other hand, the Japanese farming community has raised strong objections against further relaxation of our farm import regulations.

When Vice President Bush recently went to Tokyo, he was greeted by a large demonstration by farmers, demonstrating against further farm imports.

Our farmers say that we are already dependent upon imports for nearly half of our food needs, and with Japanese agriculture today facing huge surpluses in rice, milk products, and tangerines, in spite of the fact that the Japanese Government has refrained from increasing in real terms the level of farm subsidies for the past several years. the real income of farmers in Japan has been going down the last 4 or 5 years. So there is strong resistance among the farmers for further increasing imports.

I am sure that our friends in Iowa, with your expertise on agricultural problems, will understand this predicament of Japanese agriculture.

The Agriculture, Forestry, and Marine Products Committee in both Houses of the Japaneses Parliament have recently unanimously resolved to oppose further relaxation in farm import regulations, so we are in a very difficult situation.

Nevertheless, it is important that both the United States and Japan recognize that our broad interests, both in agriculture and in trade relations in general and in other fields, make it incumbent upon us to find solutions for the individual problems that occur from time to time.

Our two nations are the two largest economies in the world, and we both have democratic governments, and we both support the free economic system.

The benefits of cooperation far outweigh the occurrence of problems from time to time.

We also share vital interests in the political and security spheres. Friendship between our two peoples is very strong. Government-to-Government discussions on trade matters are going on all the time.

We will have further discussions in Washington next week, for example.

It is also important that not only on governmental levels, but on all levels we have dialog between Americans and Japanese. From that standpoint, I am most grateful to be able to participate in this dialog in Ames today, in Iowa. Thank you very much. [Applause.]

Mr. LOUNSBERRY. Thank you, Mr. Mizoguchi. There is a very good reason why your résumé says envoy most extraordinaire.

Our next speaker was born in Hebei, People's Republic of China. For most of his professional career he has served with the Chinese Foreign Ministry.

Beginning as a trade representative in India, he was subsequently posted to India, Tunis, Tanzania, and the United Nations.

His appointment to Washington, D.C., as trade counsul occurred just this year.

Because he has just arrived in this country, his English is somewhat limited. The First Secretary of the Chinese Embassy will translate for him.

Mr. Dong, it is a pleasure to have you here. [Applause.]

STATEMENT OF AN DONG, TRADE REPRESENTATIVE, PEOPLE'S REPUBLIC OF CHINA, ACCOMPANIED BY LI WEI, FIRST SECRETARY FOR ECONOMIC AND COMMERCIAL AFFAIRS

Mr. DONG. Mr. Lounsberry, ladies and gentlemen, it is a great pleasure for us to have this opportunity to attend such a great gathering and have met with so many friends.

I would like to express my sincere thanks to Senator Jepsen for this kind invitation.

Because my English is very poor, in order to save time, I will ask my colleague, Mr. Wei, to read the English translation for me. I hope you will not mind. [Applause.]

Mr. WEI. Mr. Lounsberry, ladies and gentlemen, I have come here to read the English version.

All participants of today's conference are either directly or indirectly involved in external trade; therefore, I'd like to give you a briefing on Sino-United States trade.

In recent years, there have been rapid developments in Sino-United States economic relations and trade.

Particularly in the 3 years since the normalization of relations between our two countries, the increased rate of our bilateral trade is beyond people's expectations.

According to Chinese statistics, Sino-United States trade turnover in 1981 was about $5.9 billion, which was 5.9 times the figure of 1978, the year before the establishment of our diplomatic relations.

Now Sino-United States trade accounts for 15 percent of China's total volume of import and export, and the United States is China's third biggest trade partner, only next to Japan and Hong Kong.

There are also very good prospects for the development of China-United States economic and technical cooperation.

According to incomplete statistics, from 1980 up to now, enterprises of our two countries have signed 50 contracts or agreements of various kinds on economic and technical cooperation projects such as generating set, powerplant boilers, large grain harvesters, drilling bits, et cetera, and on seismological exploration services for oil in Chaidam Basin and coal separation plant, et cetera.

At present there are more than 40 projects of economic and technical cooperation that are under discussion, including a ground satellite station, manufacturing equipment of polyester filament yarn, geological survey for oil in Talim Basin and revamping existing mines, and so forth.

On March 25 this year, the China National Coal Development Corp. signed a contract with American Occidental Petroleum Corp. and Island Creek Coal Corp. on the feasibility study of jointly developing Pingsu open-cut coal mine in Shanxi Province.

On April 29, U.S. Fluor Mining & Metals Corp. signed a contract with China for the development and revamping of Fushun open-cut coal mine and oil shale mine in Liaoning Province.

Besides, 23 America oil companies have participated in the bidding for joint development of China's offshore oil resources.

The rapid development of China-United States trade and economic relations is brought about through joint efforts by our two Governments and personages in business circles, and it accords with the common interests of our two peoples.

Our two Governments have successively settled problems concerning frozen assets, signed the Agreement on Trade Relations, and reached agreement on holding exhibitions on each other's territories.

Our two sides have set up the Joint Economic Committee and signed long-term agreements on grain sales and agreements on aviation and navigation, et cetera.

All this has created favorable conditions for the rapid expansion of trade between our two countries.

However, we should also notice that there are still quite a few obstacles on our road of advance. Unless we overcome these obstacles in a proper way, they would hinder the further development of China-United States trade and economic relations.

First of all, the U.S. Government must respect China's sovereignty and terminate its sale of arms to Taiwan, so as to create a more favorable atmosphere for further strengthening China-United States relations and developing our bilateral trade and economic exchanges.

The U.S. authorities are urged to repeal, as soon as possible, legislation enacted in the 1950's and 1960's discriminating against China in granting assistance, credits, and loans, as well as in trade of seven fur skins.

China should be eligible for the GSP treatment. The imbalance in China-United States trade must be rectified gradually.

If China suffers a big long-term adverse balance in its trade with the United States, it will have to restrict its imports from the United States.

The United States is urged to relax its import control over Chinese textiles and other so-called sensitive products, and continue to liberalize its export control on technical products to China.

In our opinion, the United States needs to lower its interest rates in international lending, which might weaken the U.S. competitiveness in the Chinese market, vis-a-vis Western Europe and Japan.

Prompt solution of these problems is beneficial to our two peoples.

It is my hope that friends present here will exert your influence to promote and urge for the solution of these problems as soon as possible.

Ladies and gentlemen: Today we are gathered in the beautiful State of Iowa, a State among the most advanced in U.S. agriculture.

Since friends present here are mostly farmers or manufacturers in agribusiness, I presume you may be interested in the development of China's agriculture and in the prospects for possible China-Iowa cooperation in agricultural projects.

China is a socialist developing country with a population of 1 billion people, in which 800 million are peasants, accounting for 80 percent of the total population.

In view of such a big rural population, it is of vital importance to keep agriculture in good shape.

Over the past few years, we have implemented various forms of production responsibility systems, giving more decisionmaking power to the peasants so as to bring their initiative into full play in production.

Now, as the initiative of state-owned and collective-owned, as well as individual economic sectors, are being brought into play, we have expanded our agricultural production capacity.

We have been improving our ability in scientific farming, raising unit yield by engaging in intensive cultivation and making full use of rich human resources.

We are carrying out an all-around development in agriculture, forestry, animal husbandry, sideline occupations, and fishery under the premise that the main emphasis is put on grain production.

We have paid more attention to the economic results of agriculture, tried to improve farming skills and management and increase the total output of agricultural production and raise the living standards of the peasants.

In view of China's geographic and social features, we should attach great importance to the development of medium- and small-sized cities and towns, emphasizing the expansion of enterprises affiliated to people's communes and brigades and insuring a comprehensive development of agriculture, industry, and commerce.

Thanks to our correct agricultural policies, a favorable situation prevails in our agricultural field.

China's total agricultural output in 1981 was 5.7 percent higher than that of 1980, with grain output approaching the record high of 332 million tons in 1979.

The peasants' livelihood has also been greatly improved.

The fairly rapid progress of China's agriculture has in no way affected our trade of farm products with the United States.

In 1981, China imported from the United States 5.8 million tons of wheat, 1,550,000 tons of corn, 530,000 tons of soybeans, 500,000 tons of cotton, 700,000 cubic meters of logs and lumber and 1.3 million pieces of hides, and so forth.

China has become the fourth largest export market for U.S. farm produce in the world.

In the long run, there exist even broader vistas for our bilateral cooperation in this respect.

China's total import from the United States in 1981 was valued at $4,380 million, the majority of which are farm produce such as wheat, corn, soybeans, cotton, et cetera.

It is said that Iowa accounts for 10 percent of the total U.S. export of farm products; therefore, China is possibly one of your biggest customers.

We will continue to import grain from the United States. Moreover, we hope to use interest-free or low-interest loans from other countries to transform our agriculture.

For instance, we have recently got a loan of over $100 million from the World Bank to transform saline-alkali land of the Northern China Plain and carry out 18 projects in scientific research.

In these undertakings we shall purchase, through international bidding, agricultural machinery, irrigation equipment, and scientific instruments, and employ foreign agricultural experts.

Being an agricultural State, Iowa is in a favorable, competitive position.

With the development of agriculture, processing industries of farm product must be expanded rapidly.

We are now engaged in joint ventures with some foreign countries to make beer, grape wine, canned food, et cetera.

China has some good techniques in canning food. It is reported that China's canned food of Pearl River Bridge brand is going to be coproduced with your State. This is one of the many forms of cooperation.

China cooperates with other countries in crop seeds, cattle raising, and pig breeding, et cetera.

Chinese techniques and know-how in growing rice have been experimented in 22 countries.

With the raising of our living standard, people prefer to have more lean pork, so we will import hogs with more lean meat for breeding purposes.

Since Iowa is the biggest pig-farming area, we can cooperate with each other in this area, too.

China is practicing agronomy, so we can also cooperate in personnel training.

In conclusion, the prospects for the bilateral trade and trade relations between China and the United States and the State of Iowa are bright.

So long as we make joint efforts and overcome obstacles, we will surely make even greater achievements for the strengthening of the friendship between our two peoples and the economic relations between the two countries.

Thank you. [Applause.]

Mr. LOUNSBERRY. Thank you, Mr. First Secretary, for helping us out in representing Trade Representative Dong.

Our next speaker is head of the agricultural trade section of the Delegation of the Commission of the European Communities to the United States.

He deals with top policy questions at the EC office in Washington, and he is quite welcome here in Iowa.

Mr. Ulrich Knüppel was reared in a small town in Baden-Wüttemberg, a province of West Germany.

He graduated from the University of Saarbrücken in 1967 with a degree in law and economics.

After a variety of prestigious government positions in West Germany, Mr. Knüppel joined the staff of the Commission of the European Communities in 1976, as a specialist in monetary questions relating to agriculture.

In 1979, he was appointed head of the agricultural trade section of the EC delegation to the United States, which is the position he now holds.

Welcome, Mr. Knüppel. [Applause.]

STATEMENT OF ULRICH KNÜPPEL, HEAD, AGRICULTURAL TRADE SECTION, DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES TO THE UNITED STATES, WASHINGTON, D.C.

Mr. KNÜPPEL. Thank you very much. I am very pleased to be here again. This is the third time in the last 12 months that I have been to Iowa. So I would like to start by saying: Hello good friends; happy to see you again.

One thing I kept in mind from what Mr. de Kieffer said, and that is, he is not an objective arbiter. I can fully agree with him on that point.

But I'm also willing to concede that in the agricultural trade policy area, it is not always possible to be an objective arbiter. It is a very complex subject, and there are many misperceptions and misunderstandings.

What is important is that once we have all said our piece, we should all sit down and attempt to reason together and try to come up with solutions.

I think I would agree with every other speaker here that the risk of growing protectionism is a major concern for everyone. The European Communities—EC—shares this concern.

I would wish to address certain aspects of the role of government in the trade area.

Let me start by simply suggesting that national trade policies are closely linked to domestic policy objectives. The more a country depends on imports and exports, the more government attention to and involvement in international trade issues is likely.

This is the case in the United States as well as in the EC and any other major trading country.

Import regulations and export promotion are merely the simplest forms of such public involvement.

However, perhaps even more important than such trade policy measures are government policies which are not aimed primarily at trade but at domestic needs.

Let me mention a few examples.

The main objectives of present U.S. economic policy are to bring domestic inflation and public spending under control.

However, the international repercussions of this policy and particularly on trade are tremendous.

High interest rates in the United States, the revaluation of the dollar, and the present U.S. recession, have resulted in repercussions worldwide.

The revaluation of the dollar has changed the terms of trade, and other countries have tried to adjust their own monetary policy.

The U.S. recession and recessions in other parts of the world have reduced demand, diminished productivity, and put certain industrial sectors in critical situations, which may lead to structural adjustments in such sectors over time.

In agriculture, support programs designed principally to satisfy domestic food needs and to keep the agricultural sector healthy have major trade repercussions, since these programs naturally have an effect on the level of imports and the availability of agricultural products for export.

With regard to the developing countries, their domestic policies and their decisions on how to allocate scarce financial and other resources, decide the degree of their participation in international trade.

At the same time; aid-giving countries, either on a bilateral basis or on a multilateral basis—World Bank, IMF, FAO—share responsibility through their credit and aid policies, for the economic policies of developing countries.

These examples show, I believe, that free trade and trade development depend on a lot more than on governments' willingness to stay away from protectionism or from aggressive export policies—which are often just the other side of the coin of protectionism.

International cooperation, therefore, is necessary not only in the trade but also is several other areas such as economic policy, monetary policy, and development policy.

This is even more important at the present time when economic difficulties are aggravating protectionist tendencies worldwide.

Senator Jepsen also asked me to address some specific questions. I will do so now.

The first question concerned the specific impact of trade on employment, productivity, and growth in the EC. Let me give you some figures:

In 1980, the gross domestic product in the Community, with a population of 270 million people, was around $2.8 trillion as compared to $2.6 trillion in the United States and $1.05 trillion in Japan.

Our worldwide imports in 1980 were around $385 billion and our exports $315 billion.

This compares to $245 billion in imports, and $221 billion in exports for the United States. Japan had imports of around $157 billion and exports of $144 billion.

What is clear from these figures is that the EC is not only the largest tading bloc in the world, but also that the EC is more dependent on an open world trade system than many other nations.

It is difficult to say specifically how much trade contributes to employment, productivity, and growth.

It is clear that certain imports replace more expensive domestic products and therefore, in the short term, have a negative impact on the economy.

This is particularly salient at a time when the average EC inflation rate is around 12 percent, and unemployment has reached its highest levels since 1941.

We expect the unemployment rate in the civilian labor force in the EC to remain above 9 percent in 1982, up from 6 percent in 1980.

The gross domestic product should show a growth of 1.6 percent in 1982 as compared to a decline of 0.5 percent in 1981.

In any case, exports are vital for the EC's economic survival.

No other major trading country has a trade deficit as large as the EC has.

Our trade deficit of around $70 billion is frightening and certainly not a materialization of protectionism on the EC side.

Our trade deficit with the United States last year totaled around $11 billion, of which close to $7 billion was in agricultural trade alone. This is a remarkable increase from an agricultural deficit with the United States of only about $1.7 billion in 1971.

In 1980, the EC was the world's largest importer of agricultural products, taking in nearly a quarter of the world's total. Its net agricultural trade deficit continues to be large—$25 billion.

Here again, agricultural exports are vital to the EC so that it can reduce somewhat its agricultural trade deficit.

Since I am speaking to an American audience, I think it is also important to note that the EC cannot continue to import increasing quantities of agricultural products without having at the same time some outlets on the world market.

In any event, we will respect our obligations under GATT, particularly with respect to the subsidy code.

At the same time, there should be no illusion, particularly in light of the trade figures I just mentioned, that we will use our GATT rights also.

I have already answered the second question in play what will be the immediate and long-term needs of the EC for foreign agricultural products?

The EC is and will remain heavily dependent on food and feed imports.

The dependence is particularly great for feedstuffs for animal production.

In 1980 the EC imported nearly 30 million tons mainly from the United States in the form of soybeans, soybean cake, and corn.

More than half the value of our imports from the United States is in this area. Incidentally, agricultural products from the United States enter the EC free from any duty or levy.

I would expect our general import dependence to remain at the present level.

The climatic conditions in the EC are not suited for a sufficient production of protein-rich animal foodstuffs. We will naturally also continue to be a major client for the specialty products the developing countries export to us.

Many of these countries enjoy special conditions for their agricultural exports to the EC. We will continue this policy.

Since the Common Agricultural Policy is a dynamic one and tries to adjust to changing conditions within and outside the EC, there will be some adjustments, naturally, in certain areas of agricultural trade.

The EC currently is making a major effort to adjust its policies in certain sectors, the grain sector in particular. Therefore, in the future, more domestic cereals may be used in animal feeding.

In addition, the upcoming accession of Spain and Portugal will change, to a certain extent, the level of self-supply in the area of fruits and vegetables.

Globally speaking, our position as a major agricultural importer and as a respectable exporter will remain about the same as it is now.

The Community has reached levels of consumption and living standards comparable to those in the United States.

Dramatic growth in imports can therefore no longer be expected.

The growing markets are in the Third World and possibly in the East-bloc countries.

Nevertheless, we remain committed to open trade, from which U.S. farmers, as well as those in other countries, will continue to profit.

The third question concerns which attitudes the EC takes with regard to indirect trade barriers, direct protection of certain industries, particularly agriculture, and subsidization.

Regarding the issue of protection and subsidization in agriculture, we would probably need several days of discussion together in order properly to compare the EC system with those in other major countries.

It would be easy for me to show that the EC is not more protectionist in this area than the United States.

It seems that the United States is a free trader only when it has a comparative advantage, as in the case of cereals and soybeans.

And even the domestic support programs and export promotion activities contribute in a way, which I would call subsidization, to domestic production and exports.

What then is EC policy? As I mentioned earlier, the EC has the highest agricultural trade deficit in the world. We remain committed to open international trade and to the principle of comparative advantage.

At the same time the EC also has a vital interest in ensuring political and economic independence through a sufficient level of self-supply in major commodities, as other nations do all over the world.

In addition, the community is confronted with a particular problem of transition.

The integration of agriculture and agricultural policies in a Community of 10 member-states is a unique task, which no other country in the world ever has attempted to do until now.

The EC has almost achieved in 25 years what the United States achieved in 2 centuries. But problems remain, and continuing agricultural restructuring and reform are necessary.

European integration started with the agricultural sector. The EC will have to pursue its efforts to integrate further in agriculture, particularly as Spain and Portugal gain accession to the EC.

Domestic support programs for agriculture in every country are tailored to national needs and priorities.

The EC, apart from the principle of attempting to assure consumers sufficient food supplies at reasonable prices, is also attempting to undertake adjustment in the agricultural sector, without causing major social hardships for farmers.

We are seeking to increase productivity without unduly increasing support price levels.

This is not an easy task, as you can imagine, but we have made considerable progress in this area.

Export subsidies remain one of our instruments for managing the agricultural sector, in areas where surpluses occur; but we do it in conformity with our international obligation.

Our current efforts to adjust support policies for major agricultural sectors are made, not because of outside pressures, but because of EC needs.

The result should be, among other things, a decrease in the level of export refunds as well as a reduction in import protection for certain products. But do not expect too much from this.

At the same time as we bring domestic support levels closer to support levels in other major exporting countries, the internal utilization of domestic grain will increase and may slow down the growth rate of our grain exports. But simultaneously, it would slow down future growth of certain feed imports. For some imported products, the trend may even be reversed.

In the end, the United States and others may realize that putting pressure on the EC was not worthwhile.

No one should expect that valuable EC farmland will remain unutilized, whatever the support levels are; and no one should expect either that we will continue to increase feed imports at present levels and dump resulting surpluses of other products in the sea.

There has to be some logic in discussions on United States-EC agricultural trade issues.

Regarding the question of indirect trade barriers. This is a difficult question, which is not yet solved at the international level, despite the major progress made in the Tokyo round of trade negotiations.

I would suggest that many of these questions are best dealt with on a bilateral level.

In fact, indirect trade barriers, such as humanitarian, veterinary, and plant and health rules, are generally not the result of protectionist attitudes in the country concerned.

They are, in my view, to a great extent, the result of legitimate governmental concern for citizens and the economy.

I admit that there are indirect trade barriers in other countries of a different character, but I do not believe that those are barriers which are relevant to U.S./EC trade relations—at least not in agriculture.

Close consultation and cooperation in these areas of indirect trade barriers, where the potential for disagreement is high, is certainly one of the preconditions for success in their limitation.

Such discussions are not easy and take some time. The end result, however, is even more rewarding.

Generally speaking, I think the United States and the EC agree fully on the need to keep trade channels open and not to try to hamper trade progress through undue protectionist measures.

The fourth question asked was which efforts the EC would be making to liberalize trade with the United States.

I am tempted to ask in return which efforts your government will make to protect trade from protectionist pressures in the United States.

First, I hope you will understand our frustration about the fact that U.S. natural gas prices have not yet been decontrolled.

Second, the U.S. investigations into European steel exports to the United States certainly irritate our bilateral trade relations.

The Community watches closely the attitudes and procedures applied on this side of the Atlantic, and will draw the appropriate conclusions.

Third, continuing discussions on reciprocity in Congress are not very reassuring to Europeans.

The free trade system which currently exists, although it may have a lot of shortcomings, is the best we can expect for the time being.

Further progress can only be made through negotiations and not through unilateral measures.

I understand that, with regard to reciprocity, the U.S. administration's view is more or less in conformity with the European position. However, we still have to wait and see what Congress will ultimately do.

Fourth, looking at the application of some of the codes negotiated in the Tokyo Round, I have noted that at the same time as the EC is abiding by its GATT obligations as well as adjusting its agricultural policy, it is coming under attack by the United States.

Sugar is a case in point. We eliminated public financial support for the disposal of EC-grown sugar some 10 months ago.

Nevertheless, the United States continues to attack us on this program in GATT, while introducing sugar import quotas at home.

Here again, it is difficult for Europeans to understand the logic of U.S. trade policy arguments and to remain confident that our bilateral relations will make progress rather than deteriorate.

I would also like to mention Government procurement. It is probably true that procedures on both sides were not perfect for implementing, on a rapid basis, the recent Government procurement code. But it is also true that despite certain assurances we had received in the Tokyo Round, "Buy-American legislation in various States of the United States is spreading in a way which could render it extremely difficult for the EC to further the recent progress made in trade liberalization agreements.

Finally, let me mention pending legislation in Congress requiring minimum domestic product content for foreign cars sold in the United States. Such legislation, if enacted, would spark violent countermeasures all over the world and contribute to protectionism rather than open new doors for U.S. exports.

On the basis of principle, the EC remains committed to participate in future international trade negotiations.

More than any one else involved in international trade, the EC has, as I mentioned earlier, a primary interest in the development of trade in a harmonious way, taking into consideration the particular needs and political realities of all the major trading partners.

The present worldwide recession is not the best starting point for new trade negotiations. However, efforts in the direction of additional trade liberalization may already be considered successful if they would help to block the eruption of new protectionism resulting from the present crisis.

But I am not a pessimist. I believe that we will make further progress in international trade relations in, for example, services and investments, even if it might take more time than officials on the U.S. side would prefer.

International trade negotiations cannot follow the calendar of domestic politics. To assure that international agreements achieve their goals, it is absolutely essential that they arrive at a balance of interests and concessions.

It could therefore only be damaging if such negotiations would be conducted under the pressure of short-term political considerations.

The fifth question was whether there are obstacles, problems or possible misperceptions which the EC feels are in the way of expanded trade between the United States and the EC.

My answer is yes. There are some obstacles to common understanding, which are perhaps exacerbated by the downturn in the U.S. economy.

I would not say that certain attitudes are completely lacking on the EC side either; but, for one reason or another, we are less vocal and do not intend to put our feet in concrete at a time when compromise or patience may be the ultimate solution for potential conflict.

What is important to be noted on this side of the Atlantic is that if the United States has tremendous economic and political problems, so do its trading partners.

There is neither a quick-fix nor an easy political solution.

Foreign relations, and particularly those in trade, depend today more than ever essentially on common understanding and on balancing bilateral interests.

Any other attitude could only be damaging to U.S. trade interests in particular, and to world free trade in general.

Thank you. [Applause.]

Mr. LOUNSBERRY. If there are no last-minute questions, I would like to conclude the hearing by saying that I feel it has been an exciting and productive day, and participation from many members of the audience has meant a great deal to us.

Our participants on the panel, their willingness to address us and listen to us is gratifying.

On behalf of Senator Jepsen, I thank all of you.

I hope the subcommittee will return to Iowa next year. I think it has been a valuable experience.

I think maybe you can get a wrap-up of the outcome of this hearing and some of the recommendations that may have been gleaned from it by writing to Senator Jepsen's office or the Joint Economic Committee at a later date.

Thank you all very much for coming.

The subcommittee is adjourned.

[Whereupon, at 4:20 p.m., the subcommittee adjourned, subject to the call of the Chair.]