1072

U.S.-JAPANESE ECONOMIC RELATIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE, FINANCE, AND SECURITY ECONOMICS

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-SEVENTH CONGRESS

FIRST SESSION

JUNE 19 AND JULY 9 AND 13, 1981

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
85-821 O WASHINGTON : 1981

JOINT ECONOMIC COMMITTEE

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

HOUSE OF REPRESENTATIVES

HENRY S. REUSS, Wisconsin, *Chairman*
RICHARD BOLLING, Missouri
LEE H. HAMILTON, Indiana
GILLIS W. LONG, Louisiana
PARREN J. MITCHELL, Maryland
FREDERICK W. RICHMOND, New York
CLARENCE J. BROWN, Ohio
MARGARET M. HECKLER, Massachusetts
JOHN H. ROUSSELOT, California
CHALMERS P. WYLIE, Ohio

SENATE

ROGER W. JEPSEN, Iowa, *Vice Chairman*
WILLIAM V. ROTH, Jr., Delaware
JAMES ABDNOR, South Dakota
STEVEN D. SYMMS, Idaho
PAULA HAWKINS, Florida
MACK MATTINGLY, Georgia
LLOYD BENTSEN, Texas
WILLIAM PROXMIRE, Wisconsin
EDWARD M. KENNEDY, Massachusetts
PAUL S. SARBANES, Maryland

JAMES K. GALBRAITH, *Executive Director*
BRUCE R. BARTLETT, *Deputy Director*

SUBCOMMITTEE ON INTERNATIONAL TRADE, FINANCE, AND SECURITY ECONOMICS

HOUSE OF REPRESENTATIVES

GILLIS W. LONG, Louisiana, *Chairman*
FREDERICK W. RICHMOND, New York

SENATE

WILLIAM PROXMIRE, Wisconsin
Vice Chairman
STEVEN D. SYMMS, Idaho
ROGER W. JEPSEN, Iowa
MACK MATTINGLY, Georgia

CONTENTS

WITNESSES AND STATEMENTS

FRIDAY, JUNE 19, 1981

Page

Richmond, Hon. Frederick W., member of the Subcommittee on International Trade, Finance, and Security Economics, presiding: Opening statement 1

Baldrige, Hon. Malcolm, Secretary of Commerce, accompanied by Lionel Olmer, Undersecretary 4

Ingersoll, Hon. Robert S., Cochairman, Japan-United States Economic Relations Group, accompanied by Hon. H. P. Nobuhiko Ushiba, Cochairman; and Prof. Hugh P. Patrick, professor of economics, Yale University 37

THURSDAY, JULY 9, 1981

Richmond, Hon. Frederick, W., member of the Subcommittee on International Trade, Finance, and Security Economics, presiding: Opening statement 61

Brock, Hon. William E., III, U.S. Trade Representative 63

Scalise, George, senior vice president, administration, Advanced Micro Devices, Inc., Sunnyvale, Calif., on behalf of the Semiconductor Industry Association 81

Galster, George M., vice president, international sales, Champion Spark Plug Co., and chairman, Automotive Products Export Council 99

Sodolski, John, vice president, Electronic Industries Association, on behalf of the Communications Division, Electronic Industries Association 114

MONDAY, JULY 13, 1981

Richmond, Hon. Frederick W., member of the Subcommittee on International Trade, Finance, and Security Economics, presiding: Opening statement 127

Ireland, Hon. Andy, a U.S. Representative in Congress from the Eighth Congressional District of the State of Florida 130

Block, Hon. John R., Secretary of Agriculture, accompanied by John Child, International Economist, Foreign Agriculture Service 140

Jameson, Frank Gard, chairman, Glenair, Inc., Los Angeles, Calif 152

Davis, Ron, assistant to the president, Colonial Beef Co., Philadelphia, Pa 153

Mayer, Arnold, international vice president and director of government affairs, United Food and Commercial Workers International Union, AFL–CIO, Washington, D.C 158

Gabbert, J. Stephen, executive vice president, Rice Millers' Association, RMA, accompanied by Thomas R. Graham, law firm of Patton, Boggs & Blow, international trade counsel for RMA 163

Lesley, John T., chairman, Trade Advisory Council, Florida State Department of Citrus, accompanied by William Amory Underhill, Florida Citrus Mutual; and Don Rubel, Florida Citrus Commission 169

Heron, Julian B., Jr., counsel, California-Arizona Citrus League 172

Kilik, Eugene L., president, Tanners' Council of America, Inc., accompanied by Elinor D. Talmadge, vice president 175

SUBMISSIONS FOR THE RECORD

FRIDAY, JUNE 19, 1981

	Page
Baldrige, Hon. Malcolm, et al.:	
Prepared statement, together with a statistical appendix	6
Response to additional written questions posed by Representative Richmond	54
Ingersoll, Hon. Robert S., et al.:	
Prepared statement	38
Rousselot, Hon. John H.:	
Opening statement	3

THURSDAY, JULY 9, 1981

Brock, Hon. William E., III:	
Prepared statement	67
Galster, George M.:	
Prepared statement, together with an attachment	101
Response to additional written questions posed by Representative Richmond, together with enclosures	121
Richmond, Hon. Frederick W.:	
Letter from Bruce L. R. Smith, senior staff, Advanced Study Program, the Brookings Institution, dated August 4, 1981, to Representative Richmond offering a few clarifying comments on the semiconductor industry	124
Rousselot, Hon. John H.:	
Opening statement	63
Scalise, George:	
Prepared statement	91

MONDAY, JULY 13, 1981

Block, Hon. John R., et al.:	
Prepared statement	144
Response to additional written questions posed by Representative Richmond	182
Davis, Ron:	
Prepared statement	156
Gabbert, J. Stephen, et al.:	
Prepared statement	165
Response to additional written questions posed by Representative Richmond	198
Heron, Julian B., Jr.:	
Prepared statement	174
Ireland, Hon. Andy:	
Remarks before the Interparliamentary Symposium, Tokyo, Japan, November 13–18, 1978	132
Kilik, Eugene L., et al.:	
Prepared statement	178
Mayer, Arnold:	
Prepared statement	160
Rousselot, Hon. John H.:	
Opening statement	130

APPENDIX

American Meat Institute: Statement of	199
Gross, Robert, president, California Pistachio Association: Statement of	200
Hartzell, Robert P., executive vice president, California Association of Winegrape Growers: Statement of	201
Letter of response from Arnold Mayer, international vice president and director of government affairs, United Food & Commercial Workers International Union, AFL–CIO & CLC, dated August 5, 1981, regarding two written questions posed in a July 20, 1981, letter from Representative Richmond	201
Letter to Hon. John R. Block, Secretary of Agriculture, from W. Bernard Lester, executive director, Department of Citrus, State of Florida, dated July 6, 1981, with an enclosure, regarding some of the problems the Florida citrus industry is experiencing in Europe and Japan	202
Memo to Representative Richmond from the Congressional Research Service, Library of Congress, dated July 8, 1981, regarding the costs of producing livestock in Japan and in the United States and for the cost of meat in each country	226

U.S.-JAPANESE ECONOMIC RELATIONS

FRIDAY, JUNE 19, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
FINANCE, AND SECURITY ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2154, Rayburn House Office Building, Hon. Frederick W. Richmond (member of the subcommittee) presiding.

Present: Representative Richmond.

Also present: Richard F. Kaufman, assistant director-general counsel; and William R. Buechner, Chris Frenze, Kent H. Hughes, and Richard Vedder, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE RICHMOND, PRESIDING

Representative RICHMOND. This afternoon marks the first in a series of hearings on United States-Japan economic relations.

These hearings are convened for two specific purposes: First, to bring to the American people all the facts about our economic and military relations with Japan. Second, to explore realistic proposals for bringing those relations into an equality that reflects the strength and maturity of both countries.

The United States has had a negative balance of trade with Japan since 1965, and it now exceeds $10 billion a year. To the degree that this deficit is caused by artificial barriers and unfair practices on the part of Japan—and I believe this to be the case, to a great extent—we must induce the Japanese Government to establish policies and procedures that will unlock the Japanese market for American trade.

We must inform the 109,400,000 nonfarmer Japanese consumers that they, too, are suffering from their Government's artificial trade barriers.

It's about time that our fine Japanese allies realized that their Government's subsidization of 600,000 farmers is the major reason for their own national deficit and for exorbitant food prices, which could easily be reduced by 80 percent to all Japanese consumers.

More and more of what we sell to Japan consists of nonrenewable natural resources, such as agricultural goods and raw materials, that have little labor content and only a limited amount of value added.

And what do we get in return?

For the most part, Japan sends us a range of labor-intensive manufactured goods that are already made in the United States. At times, the Japanese quality is a bit better than our own, or the price is a bit lower; but for the most part, we are not buying either new technology or new products.

Year by year, we have fallen into a relationship that has made us into little more than an economic colony of Japan.

We are providing little work for American citizens and trading away natural resources for what amounts to a few high-quality, low-priced beads and sake.

There are other imbalances that are equally disturbing.

Over the past decade, and particularly in the Tokyo round of multilateral trade negotiations, Japan has taken several steps to open up its market. Compared to their own past, they have made considerable progress. With respect to our own market, or to their economic strength and level of development, their market and their whole economy remain essentially closed to American traders.

We should not intend to overrun the Japanese market in the same way they have apparently overrun ours. But we should have every intention of requiring the Japanese to enter fully and fairly into competition with American industry in the international marketplace.

Japan retains a number of important restrictions on many agricultural products and high-technology goods—the areas where the United States is most competitive. Perhaps these restrictions are what allow Japan to occupy a place of such tremendous economic strength.

Viewed from our side of the Pacific, we can certainly say that these restrictions contribute to unemployment, inflation, and trade deficits here in our own country.

I recently returned from an 11-day visit to Japan. I went there because I was disturbed about the imbalance in our economic ties. I returned knowing a great deal more, and with a slightly altered attitude.

I am now equally disturbed and impatient with our own economic performance and lack of policy.

Why do we continue to tolerate the practices that create our $10 billion deficit?

Why do we appear so meek in our international trade arrangements, while our domestic rhetoric about industrial renewal reaches a fever pitch?

Do we not understand that our domestic problems are part and parcel of the Japanese version of world trade?

Perhaps, when the American public is fully informed about the relationship between the United States and Japan, and the impact of that relationship on our current economic problems, we will finally discover the strength to insist on fairness and equality.

In the most simple and bold terms, we and Japan must post "two-way" signs on the highway of our commerce.

By "fully informed," I intend to include the matter of our military support of Japan. Their much-touted "economic miracle" took place beneath a defense umbrella constructed and largely maintained by the United States. We now keep a garrison of 40,000 troops in Japan, supported by several billion dollars a year in technology, supplies, and equipment.

Partly because of this, the United States spends more than 6 percent of its gross national product on defense, compared to Japan's 1 percent.

This American commitment to Japan's defense means new machines lost to our industry, research equipment devoted to military, rather than to commercial targets, and thousands of scarce engineers and technical specialists lost to American industry.

Given Japan's economic strength, is it unreasonable of us to ask that they take on a somewhat more equitable share of this defense burden?

I believe the questions I have raised to be reasonable ones, in light of our economic problems and in the context of historical ties with Japan.

I want to begin answering them in these hearings, so that we can encourage policies in keeping with our great traditions of free trade and fairness—policies that will contribute to the reawakening of the American industrial giant, without any harm whatsoever to Japan.

We can no longer wait to react to individual trade pressures. The time is long overdue for the United States to develop a comprehensive strategy for opening up Japan and other economies to U.S. investment and exports.

We should work toward processing our own raw materials before launching them on the world market. Processing improves our trade position and opens up new jobs for Americans, and is also much more efficient for our export customers.

Representative Rousselot is unable to attend the hearing and has asked that his opening statement be included as a part of the hearing record.

[The opening statement of Hon. John H. Rousselot follows:]

Opening Statement of Representative Rousselot

As we begin this hearing on U.S.-Japan economic relations, it is important to point out that U.S. and Japanese concerns have become increasingly intertwined over the last few decades. In all areas—defense, general economic affairs, trade relations and international political matters—our interests converge daily. Events that occur and decisions that are made in a country half-way around the globe have important repercussions for the United States. At the same time, I believe our relations have never been more sound.

Notwithstanding these strong ties and good relations, however, or perhaps because of them, there are significant improvements that must be made in our trading patterns. Trade is an area in which greater positive efforts must be made if we are to strive to improve terms of trade which are mutually beneficial to both nations. Put simply, the Japanese market continues to be far more selective than our own.

As a result of this closed market, manufactured goods are diverted from Japan to the United States where they pose serious competitive problems for U.S. workers and firms. Footwear, textiles, heavy machinery, and electronic equipment and other products that can not enter Japan come into the United States, disrupting our markets and making it increasingly difficult to keep U.S. workers employed.

We continue to run a serious trade deficit with Japan, as well. The U.S. merchandise trade deficit with Japan has grown steadily since 1970, increasing nearly ten-fold from $1.2 billion in 1970 to $11.6 billion in 1978. Last year, we purchased $10 billion more from Japan than we were able to sell there. Services trade is the one bright spot—at least, we are in balance with Japan there.

Moreover, the level of processing of U.S. goods sold in Japan remains lower than it should be. Rather than selling them finished lumber and plywood, for example, we are sending unfinished logs. Instead of finished leather garments, they purchase primarily hides and unfinished leather from us. We sell little manufactured tobacco and processed foods.

As noted by the 1980 House Ways and Means Trade Subcommittee report on United States-Japan trade, trade data seem to indicate that, aircraft excluded, we have become a developing nation supplying a more advanced country with food and raw materials. We sell Japan soybeans, feedgrains, logs, wheat, coking coal and other steelmaking material. Japan returns with autos, steel products, consumer electronic equipment, machine tools, industrial fasteners, and other processed products.

During the latter half of the 1970's, the United States sought to reverse this growing trend toward trade imbalance by negotiating expanded trading opportunities in Japan. We saw some measure of success in the international talks conducted under the general agreements of tariffs and trade (or GATT).

Japan agreed to lower many of its import duties, to expand some of its quotas on citrus fruits, beef, and other products and to open its government purchasing contracts to bids by overseas suppliers of telecommunications equipment.

These and other concessions from Japan were not costless for the United States, however. In return for Japan's actions, we have further opened our market to Japanese, indeed all, international competition. Japan can now sell us more steel, more semiconductors, more televisions and, until recently, more automobiles than ever before.

At the same time, our producers continue to find it difficult to penetrate the Japanese market. Old practices die hard. Japan's elaborate distribution system continues to confound even the most resourceful suppliers. Their overly complex standards and certification systems and requirements present potent deterrents to new product entry. Japan continues to maintain formal restraints on at least 22 agricultural and fishery products, and we see severe trade imbalances in other sectors as well.

Another area of imbalance is defense. It is simply untenable for the United States to continue indefinitely to bear a widely disproportionate share of the costs of defending the free world. Furthermore, it is more than a question of fairness. To meet the Soviet challenge in the 1980's, all of the industrial democracies, ourselves included, must exert greater effort in the defense field.

Japan has clearly come a long way over the years in improving its trade relations with the United States. I do not mean to suggest their ability to do business in Japan has not improved. Indeed it has, but more must be done. Japanese consumers and U.S. exporters will both benefit from a reduction in Japanese trade barriers.

This subcommitee hearing gives us a good opportunity to analyze and discuss how far we have come and how far we have yet to go. This hearing will help us chart a course of further cooperation with our Japanese trading partners and identify our objectives for the 1980's.

Representative RICHMOND. We are happy to have with us this afternoon the Secretary of Commerce, Malcolm Baldrige.

I know that the Secretary shares many of my concerns about the state of United States-Japan economic relations, and agrees with me that this is a completely bipartisan issue affecting all American and Japanese consumers.

Secretary Baldrige, would you please proceed with your statement.

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE, ACCOMPANIED BY LIONEL OLMER, UNDER SECRETARY

Secretary BALDRIGE. Thank you, Representative Richmond.

I am pleased to be here this afternoon to discuss the significance of the United States-Japanese economic relationship and the ways in which the Department of Commerce will move to reduce the U.S. trade deficit with Japan to manageable proportions.

I have a prepared statement to submit for the record, but I would like to make a brief summary of it at this time.

Representative RICHMOND. Mr. Secretary, your entire statement will appear in the record. Incidentally, I read your statement last night, and I think it's outstandingly done.

Secretary BALDRIGE. Thank you, sir.

There are grounds for optimism in viewing the future of United States-Japan trade relations, but this optimism is tempered by the knowledge that difficult problems remain. In particular, I want to stress the challenge that the United States faces from Japan's declared intention to become a leader in the high technology market.

Discussion of United States-Japan trade relations must begin with a recognition that Japan is our second most-important trading partner, with transactions between the two countries exceeding $70 billion in 1980.

The top priority in the Department with respect to United States-Japan trade relations is to reduce the perennial U.S. deficit in goods and services with Japan over the longer term.

The United States has had a trade deficit with Japan since 1965. The deficit reached an alltime high of $11.6 billion in 1978; it declined to $8.7 billion in 1979, but rose again to $9.9 billion in 1980. Department projections are that the deficit is likely to worsen in 1981, and could reach $12 billion or $13 billion.

The specific means by which we will try to achieve the reduction in the deficit include:

Increased reliance on the Joint United States-Japan Trade Facilitation Committee (TFC);

Oversight of and reporting on multilateral trade negotiations (MTN) implementation;

Monitoring of the existing procurement agreement with Nippon Telephone & Telegraph (NTT) and expansion of the potential procurement market in Japan;

Upgraded efforts by the Department's Foreign Commercial Service and the export promotion programs to make U.S. companies familiar with Japanese business practices; and

Support for proposals now before Congress that would promote export trading companies.

Our response to resolving the deficit must not be a retreat into protectionism. We must direct our attention instead to making Japan's markets as open as ours, and to improving our competitiveness in those markets.

It is also important that United States and world trade laws and procedures adequately control Japan's prior practice of protecting their emerging industries until they become competitive with ours, then switching to a free trade stance.

This last point needs illustration. There have been many cases of it. In the 1950's and 1960's, Japan built up its industries behind high tariffs and nontrade barriers, imposing, for example, a duty of 35 percent on U.S. automobiles, as late as 1968.

When tariffs started coming down, the Japanese protected key markets, such as the computer and telecommunications industries, by creating a closed government procurement system. Nippon Telephone

& Telegraph (NTT) purchases account for sizable amounts, perhaps 15 to 20 percent, of the total sales of some of the large Japanese companies in this area. These sales to NTT are a source of predictable high-profit business for these companies.

With the signing of the MTN code on government procurement, and the NTT agreements, I expect the procurement system to be more open in the future than it has been in the past.

But there is a pattern here in the Japanese conduct from which we must learn to compete effectively in emerging markets. While the Japanese nurture their emerging technologies, we could often do more, within a free trade context, to sharpen our competitive edge.

The Japanese intend, over the next decade, to be in the forefront of the global high technology market. They will support their own high technology industries with a broad range of government incentives, including very large research and development subsidies which, I believe, have approached 50 percent of total research and development outlay in selected industries in the past.

We are making progress in the United States toward becoming more competitive with the Japanese in areas such as the telecommunications industry. The deregulation legislation now before the Senate helps our posture in relation to the Japanese, but there are serious issues that remain in the high technology area, and this will be the greatest challenge in our future economic relations with Japan.

We must develop an effective response in a timely fashion to this problem, whereby Japan targets certain of its major industries, protects them with high tariffs as they are growing up, gives them Government subsidies to make them strong, and then, when at last they are strong, turns them loose in the world and demands free trade.

The steps that must take to mount a counteroffensive should include:

Intensified efforts to examine and monitor Japanese practices in this area;

Increased U.S. research and development efforts. We are trying to do that in the President's new program;

Utilization to the fullest of available protection in United States law and international agreements regarding antidumping, subsidies, and Government procurement; and

Bilateral consultations to resolve some of our sectoral problems.

We will be examining our options in this area, and will work in conjunction with members of this subcommittee and other involved Government departments and agencies in preparing this response.

I welcome the opportunity to participate in these efforts.

I will be happy to answer any questions the subcommittee has for me.

Thank you, Congressman Richmond.

[The prepared statement of Secretary Baldrige, together with a statistical appendix, follows:]

PREPARED STATEMENT OF HON. MALCOLM BALDRIGE

Mr. Chairman, I appreciate this opportunity to discuss with you today the U.S.-Japanese economic relationship. This relationship is extremely important to both countries, and is one that has occupied a large amount of attention on the part of the Administration and the Congress. There are good reason for this:

Japan is the free world's second-largest economy. Together, the United States and Japan account for one in every three dollars of goods and services produced in the free world.

Japan is our second-largest trade partner, with two-way trade in goods and services amounting to nearly $70 billion per year.

Our trade is in perennial large deficit with Japan, and many American exporters continue to have great difficulty in selling to Japan.

Japan rivals U.S. technological abilities in several key industries and poses our greatest challenge in maintaining U.S. technological preeminence.

I believe this last point is of particular importance, for it marks a watershed in our economic relationship with Japan. We are going to be facing a Japanese competitive challenge sharply different from that of the past, and we have to reexamine our objectives and strategies. We must ensure we are addressing the problems of tomorrow—not yesterday. These hearings are an excellent starting place for this reexamination, and I welcome your initiative, Mr. Chairman.

THE JAPANESE ECONOMY

The growth of the Japanese economy is legendary. Until the mid-1970's Japanese real GNP grew at a rate of more than 10 percent per year. In 1950 Japan accounted for 1.5 percent of free-world GNP. Today it accounts for more than 10 percent. Japan has become the free world's second-largest economy, and while its $1.04 trillion GNP is only 40 percent as large as the $2.6 trillion U.S. GNP, Japanese per-capita income has reached 75 percent of U.S. per-capita income. Japan is the world's largest producer of motor vehicles and the free world's largest producer of steel. It is the world's third largest exporter of manufactured goods and sets global standards of quality in a broad range of consumer goods and other manufactures.

Japan's economic success is the result of a unique business-government relationship and a national consensus on the absolute priority of industrial growth. Starting in the early 1950's the Japanese government used credit allocation, import protection, export incentives, tax policy, and other measures to stimulate savings and to channel investment into the most productive areas. Japanese consumers have typically saved about 20 percent of their disposable personal income, compared with about 5 percent in the United States. Japan has consistently invested a higher proportion of its GNP in fixed capital than any other major industrial nation. The United States has been the lowest.

As a result, from 1960–73, Japanese manufacturing productivity grew 10.5 percent per year—3.5 times as fast as U.S. manufacturing productivity. From 1973–80, Japanese productivity growth slowed to 7.2 percent annually—but that was 4.2 times as fast as our productivity growth during the same period.

Rapid export growth resulted from Japan's government and business efforts. At the same time, a policy of minimizing non-essential purchases from abroad held down imports—particularly of finished manufactures. Growing trade surpluses emerged, culminating in a $25 billion trade surplus (f.o.b.) in 1978. Moreover, Japan's trading structure is highly skewed, with 80 percent of its imports being agricultural commodities or raw materials, and 95 percent of its exports being manufactured goods.

Japan is extremely dependent upon imported oil. The 1979 oil shock cut Japan's trade surplus to only $2 billion, and put its overall current account in deficit by $11 billion. As was the case with the first oil shock (1973–74), however, Japan is recovering quickly. In the first five months of 1981 Japan's trade surplus soared to an annual rate of $14 billion, and its current account deficit was virtually eliminated.

U.S.-JAPANESE TRADE

Let me now turn to the U.S.-Japanese trade relationship. Japan is our second-largest trading partner, exceeded only by Canada. Japan accounts for 9 percent of our exports and 13 percent of our imports. The United States is Japan's largest trading partner, accounting for 24 percent of Japan's exports and 17 percent of its imports. Total two-way U.S. trade in goods and services with Japan amounted to $70 billion last year.

Over 60 percent of our exports to Japan are agricultural commodities and raw materials, though manufactured goods comprise two-thirds of our exports to the rest of the world. Japan, for example, accounts for 60 percent of our log and lumber exports, 30 percent of our coal exports, and 20 percent of corn and soybeans, but only 6 percent of our manufactured exports.

On the other hand, 98 percent of our imports from Japan are manufactured goods. Japan, in fact, accounts for one-fourth of all U.S. imports of manufactures. Japan dominates some categories of our imports, for example accounting for 78 percent of phonograph and tape recorder imports and 64 percent of passenger car imports (other than those under the U.S.-Canada auto agreement).

The United States has had an unbroken string of trade deficits with Japan since 1965, cumulating to $60 billion. Our $10 billion deficit with Japan last year was our largest bilateral deficit, exceeding any of the oil-exporting countries. Our deficit with Japan, in fact, was over 40 percent of our total global deficit. Unfortunately, our deficit with Japan looks like it will worsen this year. Commerce's International Trade Administration is now forecasting a $13 billion deficit in merchandise trade with Japan for 1981, despite a reduction in the volume of auto imports. This will be an all-time record for a bilateral trade deficit with any country, and will be about half the total global trade deficit we expect for the United States in 1981.

Things do not look good for the longer term, either. The difficulty is that our imports from Japan are now 50 percent larger than our exports to Japan. Because of this extreme imbalance, we must run hard just to stay still. As illustrated in Figure 1, which is attached to my prepared statement, unless our exports to Japan begin growing significantly more rapidly than our imports from Japan, we will have constantly growing deficits. Figure 2 shows how important autos have been to the size of the deficit.

Unless present trends change, there is no doubt that the United States will have a merchandise trade deficit with Japan exceeding $20 billion by 1985 and that could be in excess of $30 billion by 1990. Such deficits are totally unacceptable, and it is up to us to take action to change present trends.

This will not be easy. It is not simply a matter of doing a better job of export promotion and gaining a larger share of the Japanese import market for manufactures. Last year, we accounted for 34 percent of Japan's imports of manufactures. This is considerably higher than our global share of 18 percent. Even if we had been able to increase our share of Japanese imports of manufactures last year by half, to 50 percent of the market, we would still have had a $6 billion deficit in our trade with Japan.

The problem is that Japan's total import market for manufactures is extremely small. Though Japan's economy is second only to the United States in the free-world, its $27 billion of manufactured goods imports in 1979 was the smallest of any of the major nations. Viewed another way, Japan imports $230 of manufactures per person, compared with $570 per person in the United States. The Japanese market for manufactures must be expanded, and we must seek elimination of the deep-rooted factors that have kept the market to such small proportions.

JAPANESE POLICIES

The problem is not new. Although from year to year, U.S. attention may have been directed to a specific sector, an individual product or a particular measure, a fundamental theme has remained—the Japanese market has not been open sufficiently to U.S. exports. We must have access to the Japanese economy, to high-technology procurement, to investment opportunities, to services transactions, to Japanese industrial associations, and to other factors which would give us equal treatment in the Japanese market.

Since the early 1950's Japan has pursued a strategy of fostering and protecting the growth of key industries until they reached a scale permitting them to compete globally. Tariffs, quotas, exchange controls, governmental guidance and other direct and indirect barriers to imports protected Japan's growing industries from foreign competition. As recently as 1968, for example, Japan had a 36 percent duty on imported cars. These policies were reinforced by a close government-business relationship, linkages among private companies, a complex distribution system, and a preference for Japanese goods over foreign goods. Inward foreign investment was tightly restricted.

Beginning in the mid-'60s, and accelerating in the '70s, policy shifted from formal protection and catching up to the West and moved toward funding R&D, financing major whole-plant exports, and restructuring declining industries. Today most of the official trade barriers are gone. Japan has reduced its tariffs sharply in the course of multilateral trade negotiations. It has dismantled most of its once-extensive network of non-tariff barriers (NTBs) and it has eliminated almost all of its export incentives.

But these actions notwithstanding, the era of restricted market access is not yet over. In its report to the President of the United States and the Prime Minister of Japan, the "Wisemen's Group" on U.S.-Japan Economic Relations concluded that "Japan is not yet as 'open' as the United States to foreign imports, capital and influence." The Group urged that, in its own national interest and in the interest of a more harmonious American-Japanese relationship, Japan should substantially improve access to its market and society. Although many of the Wisemen's other recommendations and findings have considerable merit, I believe this is the single most important statement in the report.

Highly protective policies still bar foreign competition with some Japanese agricultural products, and GATT-illegal quotas on citrus, beef and leather remain serious problems for U.S. agricultural exports. Customs clearance procedures still pose problems in terms of arbitrary judgments and overly-stringent interpretation of laws and regulations. Product approval procedures provide an effective barrier to many imports because of the extremely time-consuming and expensive measures that must be taken to win product approval in Japan.

These and other remaining official barriers and trade complications, though, are not the main reason U.S. companies still have severe market access problems in Japan. The syndrome of preferring to buy domestic goods and avoiding imports where possible, the close financial and other linkages among Japanese companies, and complex distribution systems are more important problems today. These problems must be solved before we can consider the Japanese market fully open.

But an even more difficult challenge lies ahead. At stake is the maintenance of U.S. technological leadership, on which depends the revitalization of U.S. industry, the restoration of the U.S. competitive position, and the security of our national defense production.

The focus of Japanese industrial policy was moved to knowledge-intensive industries in the 1970s—such as semiconductors and computers. Assistance to these industries came in the way of support for R&D and joint government/industry technology ventures. Tax incentives were redesigned to encourage industrial innovation. Preferential bank loans were provided for activities such as computer leasing. Closed procurement practices of government entities, such as NTT, provided the emerging high-technology industries with a substantial and protected domestic market.

Japan has made considerable progress in achieving the high technology goals it set in the early 1970s. From a fledgling in the 1960's the Japanese semiconductor industry now is the equal of the U.S. industry in many respects, and is ahead in some respects. The Japanese computer industry has moved from an importer of equipment and technology in the 1960's to become an exporter of sophisticated computers.

The industrial strategy Japan plans to follow in the 1980s builds on these technological achievements. The objective is to link the current promotion of knowledge intensive industries with new domestic initiatives to develop indigenous technologies. This strategy is intended to lead to "new frontier" industries in the energy, aerospace and ocean development areas.

U.S. OBJECTIVES

The trade challenges posed by Japan are more serious than any other, both for today and tomorrow. We must meet those challenges and solve the problems in a way that benefits both ourselves and Japan—and indeed the entire world. I believe our goal should be the substantial elemination of our deficit with Japan in goods and services over the longer-term. We need to achieve this goal not by restricting imports from Japan, but by becoming more competitive ourselves and by obtaining a Japanese market as open to all nations as ours is. More specifically, we need to aim at achieving the following:

Expand market access to Japan for imported agricultural products, consumer goods, and capital goods, and services through a change in Japanese attitudes and more effective U.S. export marketing.

Substantially liberalized access in Japan for U.S. investment, particularly in high-technology areas.

A renewed emphasis on capital investment and research and development in the United States to increase our productivity and our technological innovation.

Careful examination of Japanese and other country measures designed to stimulate the development of high technology industries to ensure they do not violate international or U.S. trade laws.

Elimination of Japan's residual official barriers and other practices restricting imports.

WHAT THE DEPARTMENT OF COMMERCE IS DOING

Achieving these goals is a matter that requires the effort of many parts of the government, as well as industry and labor. You will be hearing from other Administration witnesses in future hearings, Mr. Chairman, and I would like to focus now on those steps which the Department of Commerce is taking now and will be taking in the future.

Let me start by addressing what we are doing to solve the present problems in our trading relationship with Japan. We are concentrating our efforts in six areas: market access, export marketing assistance, overseas representation, investment opportunities, enforcement of MTN codes and U.S. laws, and NTT and other Japanese government procurement.

Market Access.—We are addressing improved U.S. access to the Japanese market by seeking the elimination of informal barriers, or what one European official has called the "wall of fog"—unwritten restrictions which bar imports into Japan. Among the vehicles is the joint U.S. Department of Commerce-Japanese Ministry of International Trade and Industry (MITI) "Trade Facilitation Committee" (TFC).

Since its establishment in 1977, the TFC has been active in identifying and reducing impediments to U.S. exports to Japan resulting from Japanese NTB's. Of the 22 cases formally presented to the TFC on behalf of U.S. companies and industry groups, 19 have been favorably resolved. These include such diverse areas as computer timesharing, shock absorbers, fertilizer, zirconium tubing, and modified food starch. Further, a large number of other cases has been resolved informally by the TFC.

Currently, the TFC is actively involved in monitoring the results of the Japanese automobile parts buying mission to the U.S. in September 1980. At the first follow-up meeting in February, the Japanese agreed to set as a goal increasing their purchases of U.S.-made auto parts from $139 million in 1980 to $300 million in 1981.

At our next meeting of the TFC this fall, we plan to shift the orientation from official barriers to informal barriers, and to enlist the support of MITI in seeking to change private attitudes toward trade. With expanded resources and a closer working relationship with the Tokyo-based Trade Study Group (jointly operated by the American Chamber of Commerce in Japan—the ACCJ, and the Japan External Trade Organization—JETRO), we will rely increasingly on the TFC as an instrument for resolving market access problems affecting whole industries as well as individual companies.

This shift in focus will increase the TFC's case load, and, indeed, we are already working with companies to develop new cases. Steps are being taken to expand further the TFC case load through increased publicity as well as through work with the ISAC's and with groups such as the Chamber of Commerce.

The Export Trading Company legislation supported by the Administration would also help American exporters solve their Japanese market access problems. Export trading companies promise to be extremely useful marketing vehicles that may be uniquely suited to the needs of smaller and medium-sized U.S. companies attempting to sell in Japan.

Export Promotion.—We must deal with that portion of our trade problem which is due to weak and ineffective U.S. export marketing efforts. Many Japanese claim that American companies are not prepared to make a serious effort to penetrate the Japanese market. In many cases this has been true, and the Commerce Department is working to help U.S. companies undertake a marketing commitment in Japan.

We are concentrating export promotion resources on increasing information on the availability of U.S. products and on agency and distributorships in the Japanese market. We are working through the Trade Study Group to monitor implementation of MTN codes (particularly government procurement), and to develop an effective mechanism to report export opportunities and Code compliance. We are establishing task forces organized around specific target industries to identify export opportunities, and develop promotional events.

This year, we are mounting four trade missions to Japan, participating in nine exhibits and receiving 28 foreign buyers groups in sectors with high U.S. export potential—including process control equipment, laboratory instruments, and automotive parts and accessories. We will also feature seminars, including presentations on Japanese government procurement practices to acquaint our business community with this newly opened $9 billion segment of the market.

Commercial Representation.—Commerce's Foreign Commercial Service (FCS) has geared up to help American exporters in Japan. The FCS in Japan is better equipped to respond to a wider range of specialized trade problems than in any other country. It has nine American and 32 Japanese national specialists. In addition, the FCS has recruited a highly qualified U.S. private sector expert in high technology electronics who will oversee FCS trade support in high technology industries.

The FCS in Japan puts special emphasis on pursuit of market access problems. It has developed a close working relationship with both the U.S. business community and the Japanese government, and has assisted in obtaining changes in nontariff barriers such as those restricting U.S. sales of electrical appliances. The FCS recently initiated three specialized committees directed at reducing market access problems in data processing, scientific research and development, and shipping. Through these committees the FCS obtains cooperation between the Embassy and the resident U.S. business community, and Japanese industry and government.

Investment Opportunities.—Our chronic inability to improve our performance in the Japanese market is due partially to long-standing Japanese restrictions on U.S. investment, and we will ensure that U.S. investors receive equitable treatment. Several studies have established the link between foreign direct investment and exports, and a recent report prepared by the American Chamber of Commerce in Japan confirms the export pull-through effects of U.S. investment there.

Notwithstanding our substantial business ties, U.S. direct investment in Japan totals less than $6 billion or only 3 percent of U.S. investment worldwide. Japan now ranks only tenth among world sites for U.S. investment.

While U.S. investment in Japan has remained relatively static, Japanese investment in the U.S. has risen rapidly—from $345 million in 1974 to an estimated $4.2 billion by the end of 1980. This is only 7 percent of total foreign direct investment in the United States, but U.S. affiliates of Japanese firms account for almost 11 percent of total assets of all non-bank foreign affiliates in the U.S., nearly 25 percent of total sales; 40 percent of exports; and 41 percent of imports. These investments are a source of Japanese capital, managerial knowhow, technology, and employment for U.S. citizens. Japanese investment in the U.S. also offers the potential for transferring successful Japanese productivity enhancement techniques to the U.S. industrial setting. In some instances, such as color televisions, motorcycles, and automobiles, timely Japanese investment in U.S. production facilities may serve to preclude protracted and potentially disruptive trade disputes.

The disproportionately low amount of U.S. investment in Japan is directly attributable to long-standing Japanese restraints on foreign capital.. The new Japanese Foreign Exchange and Foreign Trade Control Law establishes more liberal procedures, but the government still retains considerable discretionary authority to block foreign investment proposals. We do not yet have sufficient experience under the new legislation for me to comment on its implementation. However, the Department is working to establish a mechanism which will focus on the reduction of barriers to U.S.. investment in Japan. At the same time, Commerce's International Trade Administration has expertise on Japanese investment policies and practices and is available to advise U.S. businessmen of the potential difficulties.

MTN Implementation.—Because of the importance of Japanese MTN concessions in liberalizing U.S. access to the Japanese economy, we are focusing particular attention on monitoring Japanese MTN implementation. Our MTN implemenation program for Japan includes: (1) monitoring Japanese actions, (2) enforcing U.S. rights, (3) heightening awareness and providing advice to U.S. business, (4) expanding export promotion programs, (5) monitoring U.S. actions, and (6) encouraging expanded coverage and application.

Among the several steps which the Department is taking on worldwide MTTN implementation, the establishment of the Trade Advisory Center (TAC)—which provides a single contact point for firms with trade questions or problems—is proving highly useful in helping U.S. business to take full advantage of Japanese concessions. The extensive system of joint advisory committees established by the American Chamber of Commerce in Japan and the FCS staff in Tokyo provides a valuable additional source of information on Japanese performance.

NTT Procurement.—Japan has now opened Nippon Telephone and Telegraph (NTT) procurement to U.S. and other foreign companies. This is of particular importance not only because the amount opened to foreign bidding is $3.3 billion, but also because more than half of this amount represents high technology telecommunications equipment in which we are highly competitive.

Our NTT implementation effort centers on ensuring that NTT procedures conform to the letter and the spirit of the December 1980 agreements, and on providing U.S. firms with timely information, including: (1) providing U.S. exporters with announcements of NTT's proposed purchasers, as well as assistance and guidance on qualifications procedures, (2) publishing key NTT information in the Commerce Business Daily, (3) making complete NTT tender documents available in Washington via courier service from Tokyo, and (4) identifying firms willing to translate the documents.

We are also involved in monitoring NTT's activities in order to safeguard the interests of U.S. firms, are conducting active awareness programs (as in our ready support of NTT's interconnect seminars in Washington and Los Angeles this spring), and organized an official U.S. Trade Mission to the NTT Procurement Seminar in Tokyo, and plan to acquire market research targeted on Japan's telecommunications market—including NTT.

JAPANESE GOVERNMENT ACTIONS

I would like to point out that the Japanese Government—and particularly the Ministry of International Trade and Industry—shares our concern for the long term implications of a chronic imbalance in U.S.-Japan trade. The Japanese government has been increasingly forthcoming in working with us to address this problem. In a recent Tokyo speech, for example, MITI Minister Tanaka included the responsibility to expand imports, and especially manufactured imports, in a description of Japan's role in the international economy.

The Japan External Trade Organization (JETRO), originally established to promote Japanese exports, now also is beginning to pay attention to manufactured imports. The Manufactured Imports Promotion Organization (MIPRO), a new group funded by MITI, JETRO and leading Japanese industry associations, has been set up to promote Japanese imports of manufactures. It recently opened a Washington office for the promotion of U.S. manufactured exports to Japan. MITI has provided invaluable assistance in the process of solving trade problems through the Trade Facilitation Committee. These efforts are most welcome, and I look forward to even more cooperation with the Japanese Government in changing private attitudes.

THE TECHNOLOGICAL CHALLENGE

Let me turn now to what I view as the most serious economic challenge of all to the United States—the rapidly growing technological capabilities of Japan. Certainly market access, government procurement, residual quotas on beef and other products, and the other issues we have been addressing are very important and must be resolved. But while we have been concentrating our attention on them—gaining a little here, and a little there—Japan has been building technological capabilities that can have a fundamental effect on our international economic position and even on our national security.

Though Japan's technological growth has been quite rapid, it has escaped the attention of much of the business community, the press, and even policy officials in the government. As I noted earlier in my statement, the Japanese government has reached a national consensus that the future of Japan lies in becoming a knowledge-intensive and technological economy. So far they have concentrated on computers, semiconductors, and industrial robotic—the building blocks of future industrial strength and innovation. And they have been successful.

Japan is the world's second largest market for computers, semiconductors and telecommunications equipment. In the 1970's, the U.S. dominated the high technology segment of the Japanese market, supplying just under 50 percent of computers in use in Japan; and 57 percent of semiconductor imports.

But the first fruits of the shift in Japanese industrial policies in the early 1970's—away from process industries and toward knowledge intensive sectors—are radically altering our position.

The U.S. now has a growing trade deficit with Japan (but not with Europe) in telecommunications, integrated circuits, and other electronic-based products. In 1980, the U.S. deficit in these products with Japan rose to nearly $4 billion.

Japanese suppliers recently captured 42 percent of the U.S. market for bellwether 16K RAM (Random Access Memory) devices.

In 1980, the U.S. deficit on bilateral semiconductor trade with Japan jumped 215 percent to $224 million.

Japan is the only nation in the world where U.S. computer companies do not have a majority share of the market.

If we view the world through the lens of the MITI plan for the 1980's and 1990's, it is apparent that these figures are but portends of what lies in store. For example, MITI is now supporting the development of a "fifth generation" computer with capabilities far beyond present U.S. or Japanese technology. MITI's plans will take the Japanese economy beyond knowledge intensive industries to "forward engineering" and creative science; beyond the importation and adaptation of foreign origin technology to the generation of original technologies in Japan.

The major industries affected will be semiconductors, computers, telecommunications, and aerospace—all significant positive items in the current U.S. global trade balance and vital to our national security. Other industries targeted by MITI include industrial robotics, genetic engineering, and nucelar energy. MITI envisions increasing R&D expenditures from the present 2 percent of GNP to 3 percent of GNP by 1990—surpassing the U.S. ratio. In fact, even in dollar terms, total Japanese commercial R&D could match or exceed total U.S. commercial R&D by 1990.

Computers.—The key to MITI's vision of the future is the computer. Government assistance is involved in virtually every phase of this industry, from technology and software development, to leasing, financing and market development. It is estimated that the Japanese government has provided funding for approximately one half of all computer-related research and development. This includes direct funding, as well as research and development tax credits and accelerated depreciation for R&D facilities, which could amount to 5% of total R&D spending in the computer industry.

Software development is assisted by the Joint Systems Development Corporation, a joint venture of the Japanese Government and major software firms. The Japan Electric Computer Corporation (a joint venture of the six major Japanese computer manufacturers, financed at below market rates by the Japan Development Bank) purchases computers from manufacturers, leases them to customers, and provides a subsidy on trade-ins of obsolete machinery. In addition, the government offers a melange of tax incentives—special accelerated depreciation for some computer production facilities; a special depreciation bonus in the first year on the purchase of large computers; a preferential property tax for computers; and a tax credit for computer training.

In addition to these positive support programs, the Japanese computer industry was protected from international competition by tariffs (until 1976) and by closed procurement by major government end-users (until January 1981). Although Japanese manufacturers supply 50–60 percent of the Japanese computer market, they have had a virtual monopoly—90 percent—of the government market. NTT purchases,, for example, account for a sizeable amount (15–20 percent) of total sales of some of the large Japanese companies such as Fujitsu and NEC. These sales are a source of predictable, high-profit business for these companies.

We are looking for improvement under the Government Procurement Code, but these figures reflect the pattern during the critical formative years of the Japanese computer industry. In a repetition of earlier patterns (especially in the auto industry) Government protection has enabled Japanese computer producers to establish dominance in the large Japanese market, using it as a springboard to compete in international markets.

Semiconductors.—Cheap and abundant steel provided the spearhead for the Japanese export drive of the 1970's. Cheap, reliable, state-of-the-art Japanese integrated circuits—embodied in computers, numerically controlled machine tools and an array of "smart" machines—are intended to play the same role in the 1980's. Government support for this industry closely parallels that for computers. Direct government funding for R&D in this industry probably accounts for at least one third of the total, and closed procurement has been the principal protective device. The availability of NTT as a virtually private preserve has given the Japanese industry critical experience advantages. Volume and quality considerations were a major factor in their capture of the 16K RAM market, placing them in an advantageous position to assume leadership in the 64K RAM market of the next five years—and possibly 256K RAM beyond that.

Robotics.—Robotics is another high-growth, export oriented industry where basic technology (in this case, developed in the United States), combined with a comprehensive Japanese program of tax incentives, joint research, anti-trust

85-821 O - 82 - 2

exemptions and related industrial policy supports, have given Japan a commanding lead in a high technology market. Specific government measures to support the industry include an extra 25 percent depreciation for robot users in addition to normal depreciation during the first year, and a 100 billion yen ($450 million) loan program to encourage the introduction of robots in hazardous operations and to increase productivity.

Following the successful example in computer leasing arrangements, the Japan Robot Leasing Corporation (JRLC), funded primarily by loans from government and private banks and by government subsidies, provides attractive leasing terms for users and limits demands on producers' capital. By 1985, robot production is expected to be a billion dollar a year business, with annual output of 18,500 machines.

MEETING THE CHALLENGE

The House Ways and Means Subcommittee on Trade, Mr. Chairman, has conducted valuable research into Japanese high technology policy, and has warned that "Japan's long-term plans most directly conflict with industries of strategic importance to the U.S.". The analysis in my statement certainly corroborates this view.

High technology trade has been the mainstay of our trade position. Such trade has been in surplus by as much as $40 billion by some measures, and has been the principal offset to our oil imports and imports of low technology manufactures. We must maintain a lead in technological innovation lest we find our trade position falling into yet larger deficits—with disastrous results for the dollar and for the U.S. standard of living. Even more fundamentally, we must maintain the technological basis for producing and maintaining the sophisticated military goods and services necessary to our national defense. We cannot become dependent on overseas nations for the fundamentals of our national security.

There is no doubt in my mind that U.S. industry and scientific institutions have the ingenuity and creative genuis to maintain U.S. primacy in technology. What is required is an integrated program designed to ensure that U.S.-Japanese competition is played by the rules, and to ensure that technological innovation has the national priority in the United States it needs. Among the steps necessary:

We are optimistic that we will reach final agreement with the Japanese on accelerated mutual tariff reductions on semiconductors soon. Although the tariff changes in themselves do not represent a major breakthrough, the agreement signals the shift in our trade policy dialogue toward the upper end of the technology spectrum.

We must make a greater effort to examine Japanese practices to ensure they do not violate any U.S. or international trade laws.

We must make fullest use of remedies available to use under U.S. law and international agreements (especially those dealing with subsidies, anti-dumping, and government procurement) wherever illegal practices are found.

We must make sure that existing international codes are indeed adequate in this regard and especially, that implementation of the MTN Agreement remains current with evolving trade practices.

We must have effective, regular consultative relationships with Japan to provide insights into mutual industry and trade problems and, perhaps most important, to give us lead time to identify potential problem areas and solve them before they become major issues. I will be working to establish such a relationship with my colleague, MITI Minister Tanaka.

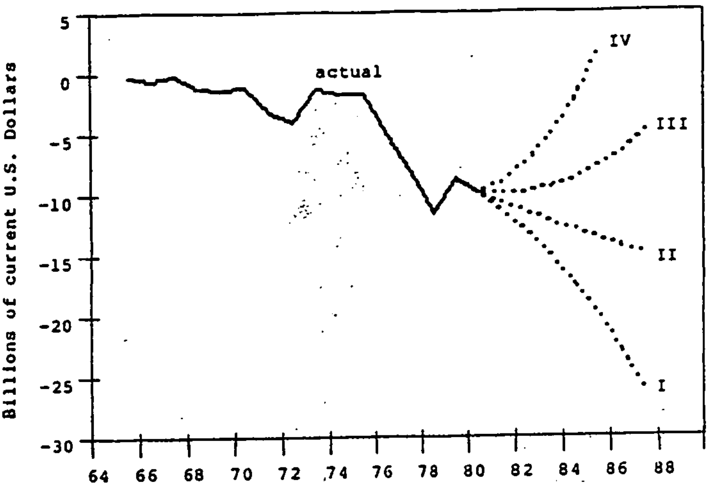
Finally, we must orient more of our own national resources to research and development. U.S. industrial R. & D. has been declining relative to output, and this decline must be arrested. We must make more of an investment in our future. The bipartisan tax proposals advocated by the Administration are an excellent beginning in this regard. They will encourage R. & D. by allowing three-year write-offs for equipment purchased for R. & D. purposes and will provide a 25 percent tax credit for incremental R. & D. salaries and wages. This, for the first time, would put American companies approximately on a par with the provisions Japanese companies have been receiving.

We must not run from free trade or from competition, Mr. Chairman. In the final analysis nothing spurs innovation like competition. If we rise to meet the Japanese challenge, we and the whole world can benefit from that competition and from the new knowledge and innovations which will result.

STATISTICAL APPENDIX

Figure 1

UNITED STATES TRADE BALANCE WITH JAPAN
ACTUAL BALANCES 1965-80 AND HYPOTHETICAL PROJECTIONS



ASSUMED ANNUAL GROWTH RATES AFTER 1980

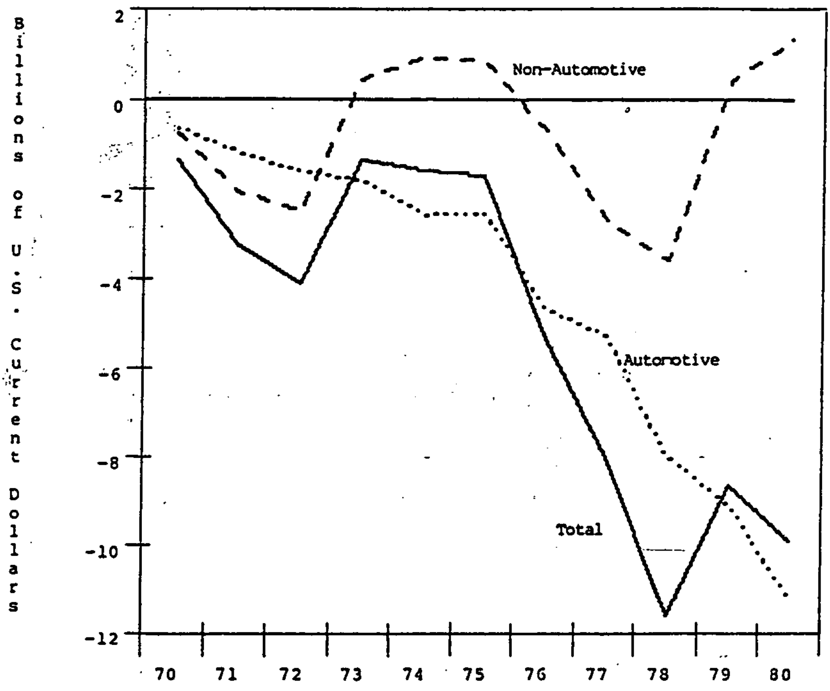
	U.S. Exports	U.S. Imports
Case I	15%	15%
Case II	15	12.5
Case III	15	10
Case IV	20	10

Note: Actual annual growth rates, 1970-80 were:
U.S. exports to Japan — 16%
U.S. imports fm Japan — 18%

International Trade Administration
Office of Planning & Research
June 1981

Figure 2

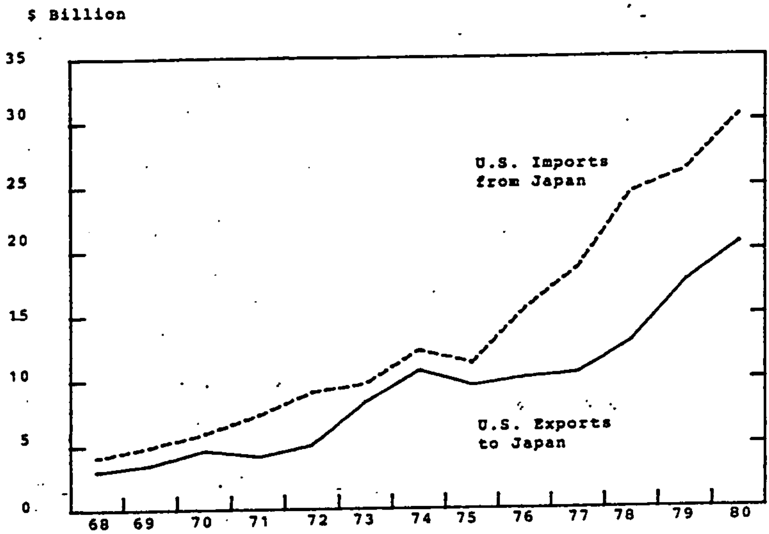
U.S.-Japanese Trade Balances:
Total Trade, Automotive and Non-Automotive
Balances, 1970-1980



International Trade Administration
Office of Planning and Research
June 1981

Figure 3

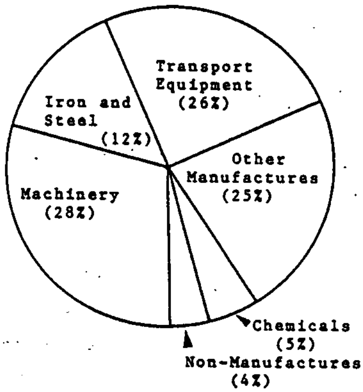
U.S IMPORTS FROM JAPAN AND U.S. EXPORTS
TO JAPAN 1968-1980



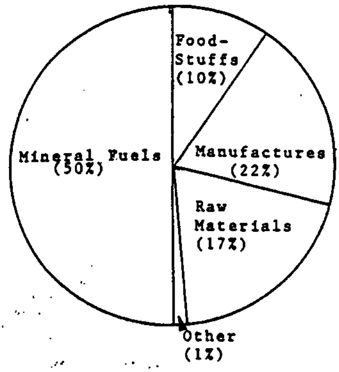
International Trade Administration
Office of Planning and Research
June 1981

Figure 4

JAPANESE COMMODITY TRADE IN 1980



EXPORTS (F.O.B.)
$129.8 BILLION

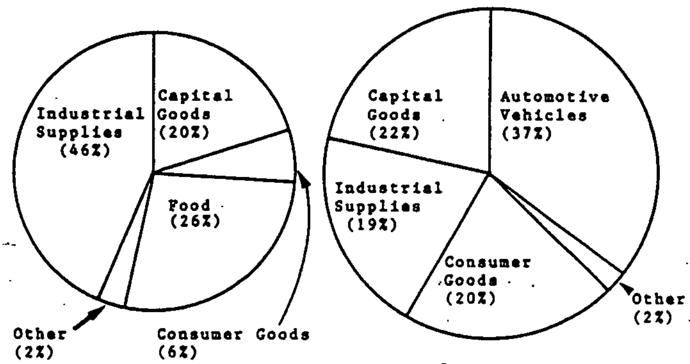


IMPORTS (C.I.F.)
$140.5 BILLION

International Trade Administration
Office of Planning and Research
June 1981

Figure 5

UNITED STATES-JAPANESE TRADE IN 1980



U.S. EXPORTS TO JAPAN (F.A.S.)
$20.8 BILLION

U.S. IMPORTS FROM JAPAN (F.A.S.)
$30.7 BILLION

International Trade Administration
Office of Planning and Research
June 1981

TABLE 1

[In billions of dollars]

	Japan's exports by region, 1976–80[1]					Japan's C.I.F. imports by region, 1976–80					Japan's C.I.F trade balance by region, 1976–80				
	1976	1977	1978	1979	1980	1976	1977	1978	1979	1980	1976	1977	1978	1979	1980
Total	67.22	80.49	97.54	103.03	129.81	64.80	70.81	79.34	110.67	140.53	2.43	9.68	18.20	−7.64	−10.72
Developed countries	31.62	38.00	45.67	48.76	61.17	26.05	27.54	33.10	43.04	49.12	5.57	10.46	12.57	5.72	12.05
United States	15.69	19.72	24.91	26.40	31.37	11.81	12.40	14.79	20.43	24.41	3.88	7.32	10.12	5.97	6.96
EEC	7.23	8.74	11.10	12.69	16.65	3.62	4.19	6.10	7.50	7.84	3.61	4.55	5.00	5.11	8.81
Other Western Europe	3.72	4.30	3.70	3.75	4.85	1.34	1.38	2.00	2.53	2.59	2.38	2.92	1.70	1.22	2.26
Canada	1.56	1.71	1.87	1.74	2.44	2.72	2.90	3.19	4.10	4.72	−1.16	−1.19	−1.32	−2.36	−2.78
															−2.28
Other developed	3.42	3.53	4.09	4.18	5.86	6.56	6.67	7.02	8.40	9.56	−3.14	−3.14	−2.93	−4.22	−3.70
Less-developed countries	30.92	37.58	45.22	46.89	59.50	35.90	39.93	42.38	62.23	84.73	−4.98	−2.35	2.84	−15.34	−25.23
OPEC	9.26	11.93	14.11	13.35	18.48	21.85	24.15	24.54	36.32	56.49	−12.59	−12.22	−10.43	22.97	−38.01
Other LDC's	21.66	25.65	31.11	33.54	41.02	14.05	15.78	17.84	25.91	28.24	7.61	9.87	13.27	7.63	12.78
Centrally planned economies	4.68	4.91	6.65	7.38	9.16	2.85	3.32	3.86	5.39	6.67	1.83	1.59	2.79	1.99	2.49

[1] Exports valued f.o.b.

[2] Exports valued f.o.b.; imports valued C. I. F. Regions may not add up to totals due to rounding.

Source: The Japan Tariff Association, "The Summary Report Trade of Japan" and OECD. Prepared by: Office of Planning and Research, International Trade Administration, Department of Commerce, June 1981.

TABLE 2

[In billions of dollars]

	Japan's exports by commodity group, 1976–80					Japan's imports by commodity group, 1976–80					Japan's trade balance by commodity group, 1976–80[3]				
	1976	1977	1978	1979	1980	1976	1977	1978	1979	1980	1976	1977	1978	1979	1980
Total	67.23	80.49	97.54	103.03	129.81	64.80	70.81	79.34	110.67	140.53	2.43	9.68	18.20	−5.67	−10.72
Manufactured goods	64.58	77.71	94.23	99.07	124.66	13.39	14.65	19.99	26.94	30.62	51.19	63.06	74.24	74.11	94.04
Transportation equipment	18.55	23.41	27.44	25.72	34.37	.80	.71	1.49	1.57	2.25	17.75	22.70	25.95	23.95	32.12
Motor vehicles	(11.18)	(14.76)	(19.57)	(17.02)	(23.27)	(.30)	(.38)	(.55)	(.60)	(.40)	(10.80)	(14.38)	(19.02)	(16.42)	(22.79)
Ships	(7.05)	(8.13)	(7.17)	(3.87)	(4.68)	(.26)	(.13)	(.54)	(.25)	(.58)	(6.79)	(8.00)	(6.63)	(3.62)	(4.10)
Other (including aircraft)	(.32)	(.52)	(.70)	(4.83)	(6.42)	(.24)	(.20)	(.40)	(.72)	(1.19)	(.08)	(.32)	(.30)	(4.11)	(5.23)
Machinery	17.37	21.34	20.09	29.56	36.78	3.29	3.58	4.23	5.56	6.51	14.08	17.76	23.86	24.00	30.27
Iron and steel	10.48	10.52	11.85	14.11	15.45	.26	.25	6.40	.90	.89	10.22	10.27	11.45	14.55	14.56
Textiles	4.22	4.70	4.87	4.91	5.09	1.70	1.73	2.73	3.83	3.18	2.52	2.97	2.14	1.91	1.91
Chemicals	3.75	4.30	5.10	6.10	6.77	2.66	3.00	3.76	5.18	6.20	1.09	1.30	1.34	.92	.57
Professional instruments	2.78	3.86	5.17	5.68	7.13	.60	.41	.54	.74	.80	2.18	3.45	4.63	4.94	6.33
Other manufactured goods	7.43	9.58	11.71	13.00	19.07	4.08	4.97	6.84	9.16	10.79	3.35	4.61	4.87	3.84	8.28
Foodstuffs	.89	.87	1.05	1.21	1.59	9.38	10.11	11.40	14.42	14.66	−8.49	−9.24	−10.35	−13.21	−13.07
Raw materials	.89	.99	1.05	1.15	1.35	12.98	14.11	15.11	21.84	23.46	−12.09	−13.12	−14.06	−20.69	−22.11
Mineral fuels	.12	.16	.26	.36	.50	28.29	31.15	31.34	45.29	69.99	−28.17	−30.99	−31.08	−44.93	−69.49
Other	.75	.76	.95	1.23	1.71	.76	.79	1.50	2.18	1.80	−.01	−.03	−.55	−.95	.09

[1] Exports valued f.o.b.
[2] Imports valued C.I.F.
[3] Exports valued f.o.b.; imports valued C.I.F.

Note: Components may not add up to totals due to rounding.

Source: The Japan Tariff Association, "The Summary Report Table of Japan" and OECD. Prepared by: Office of Planning and Research, International Trade Administration, Department of Commerce, June 1981.

TABLE 3.—UNITED STATES-JAPAN TRADE (F.A.S. BASIS)

[Value in billions of dollars; quarterly data are seasonally adjusted at annual rates]

	United States exports f.a.s. to Japan	United States imports f.a.s. from Japan	Trade balance
1974:			
1	10.5	10.4	0.2
2	10.6	11.8	−1.3
3	10.5	13.2	−2.7
4	11.2	14.3	−3.1
1975:			
1	10.1	13.7	−3.6
2	9.4	10.4	−1.0
3	9.7	10.2	−.5
4	9.2	11.6	−2.4
1976:			
1	8.9	14.6	−5.7
2	10.2	15.6	−5.4
3	11.0	15.7	−4.8
4	10.5	16.4	−5.9
1977:			
1	11.2	16.1	−4.9
2	10.3	18.3	−8.0
3	9.8	19.1	−9.2
4	10.8	20.7	−9.9
1978:			
1	10.5	23.7	−13.2
2	12.1	25.0	−12.9
3	13.3	24.7	−11.4
4	15.7	24.6	−8.9
1979:			
1	16.8	25.2	−8.4
2	16.3	25.9	−9.4
3	18.3	26.5	−8.2
4	18.9	27.5	−8.6
1980:			
1	19.8	29.3	−9.5
2	21.0	30.7	−9.7
3	20.9	31.0	−10.1
4	21.6	32.0	−10.4
1981: 1	22.8	35.5	−12.7

Source: International Trade Administration, Office of Planning and Research, June 1981.

TABLE 4.—U.S. COMMODITY EXPORTS TO JAPAN (F.A.S. BASIS)

[Value in millions of dollars]

	1975	1976	1977	1978	1979	1980
Total	9,570	10,152	10,529	12,885	17,579	20,790
Foods, feeds, and beverages	2,658	2,908	3,215	4,013	4,686	5,393
Industrial supplies	4,301	4,627	4,697	5,238	7,706	9,501
Capital goods, execept autos	1,706	1,749	1,718	2,372	3,527	4,148
Automotive vehicles and parts	116	130	137	182	220	192
Consumer goods, except autos	509	556	591	802	1,077	1,154
Other	282	181	170	278	363	402

Source: International Trade Administration, Office of Planning and Research, June 1981.

TABLE 5.—U.S. COMMODITY IMPORTS FROM JAPAN (F.A.S. BASIS)

[Value in millions of dollars]

	1975	1976	1977	1978	1979	1980
Total	11,278	15,516	18,623	24,458	26,243	30,701
Foods, feeds, and beverages	182	269	255	283	240	297
Industrial supplies	3,682	3,884	4,323	4,836	5,320	5,926
Capital goods, except autos	1,572	2,151	2,965	4,859	5,663	6,555
Automotive vehicles and parts	2,636	4,796	5,439	8,186	9,309	11,436
Consumer goods, except autos	3,050	4,271	5,479	6,161	5,558	6,198
Other	156	144	162	132	153	289

Source: International Trade Administration, Office of Planning and Research, June 1981.

TABLE 6.—UNITED STATES-JAPAN TRADE BALANCE BY COMMODITY GROUP (F.A.S. BASIS)

[Value in millions of dollars]

	1975	1976	1977	1978	1979	1980
Total	−1,708	−5,364	−8,094	−11,573	−8,664	−9,911
Foods, feeds, and beverages	2,476	2,639	2,960	3,730	4,446	5,096
Industrial supplies	619	743	374	402	2,386	3,575
Capital goods, except autos	134	−402	−1,247	−2,487	−2,136	−2,407
Automotive vehicles and parts	−2,520	−4,666	−5,302	−8,004	−9,089	−11,244
Consumer goods, except autos	−2,541	−3,715	−4,888	−5,359	−4,481	−5,044
Other	126	37	12	146	210	113

Source: International Trade Administration, Office of Planning and Research, June 1981.

TABLE 7.—U.S. AND JAPANESE SHARES OF INDUSTRIAL COUNTRIES EXPORTS TO THE WORLD

[In percent]

	United States	Japan
1960	24.6	4.8
1965	21.9	6.7
1970	19.6	8.8
1975	18.9	9.8
1976	18.2	10.6
1977	16.9	11.3
1978	16.7	11.4
1979	17.2	9.7
1980	17.7	10.5

Source: International Trade Administration, Office of Planning and Research, June 1981

TABLE 8.—U.S. SHARE OF JAPANESE IMPORTS

	United States percent of total imports	United States percent of manufactured imports
1965	29.0	40.1
1970	29.5	41.0
1975	20.1	34.9
1976	18.4	33.6
1977	17.6	31.8
1978	18.8	30.2
1979	18.6	31.5
1980	17.4	34.4

Source: International Trade Administration, Office of Planning and Research, June 1981.

TABLE 9.—*Japanese share of United States imports of manufactured goods*

	Percent share
1960	6.8
1965	19.7
1970	21.6
1975	21.3
1976	23.2
1977	23.5
1978	23.9
1979	22.9
1980	23.9

Source: International Trade Administration, Office of Planning and Research, June 1981.

Representative RICHMOND. Thank you, Mr. Secretary.

Mr. Secretary, I agree with you that the high technology market is being invaded by the Japanese as quickly as they can do it. On the other hand, that's very much the fault of our own American industry, not keeping up, not putting enough money into research and development, not being quite as aggressive as the Japanese.

But I'd like to refer you to some of the basics. Here we have the ability, in the United States, to lower the cost of food for the average Japanese person by 80 percent for the staples: his rice, his meat; it would lower the cost of his dairy products by 50 percent.

We can reduce the total deficit of the Japanese Government if they would open up their ports to processed American foods. Now, that's simple. It's not high technology. We obviously have the ability right now to outperform the Japanese on agricultural products, 5 to 1.

Why couldn't we make some rather fast progress in these areas, by just saying: "Look, we can produce boxed beef which we can deliver in Tokyo for $3.50 or $4 a pound, so that your people, instead of having to pay $30 a pound for meat, will be able to buy that same meat for $6 a pound. We can produce rice for $400 a ton; we can deliver it to your people, to retail for 40 cents a pound."

The Japanese people are now paying $2 a pound for their rice.

Why couldn't we get in on some of these relatively easy matters, where we do have the technology and have the goods in stock?

You know, our beef industry right now is at a relatively low ebb. Our slaughterhouses can use more work. Our farmers need more work.

Why wouldn't that be an area that we should really attack, even above the high technology matters, which I well understand are very, very important?

Secretary BALDRIGE. If I may, Congressan, I'd like to disagree with the opening part of your statement, and then agree with your ending.

I can't agree with the opinion that our high technology industries have not been competitive because they haven't put enough into research and development, or have missed the boat somewhere. Our high technology industries now are extremely competitive. We are the world leaders.

My remarks were addressed previously to the fact that Japan, knowing that, has deliberately targeted firms such as IBM, for instance, as a goal for Japanese industry to shoot at and surpass in world markets by 1990. To do that, they have, until just lately, put up very strong import restrictions that we are trying to open up. And we have met with some success there. They have deliberately financed, through the Government, up to 50 percent of the research and development that our people have all been doing out of their own pockets.

We are ahead now, and that is one of the areas in which we want to keep ahead. That is why I mentioned research and development as a problem, because we do not subsidize our industries like that.

Representative RICHMOND. We do in a way, Mr. Secretary, because, as you know, research and development is tax deductible, so the American Government in effect, subsidizes all American research and development by 50 percent.

Secretary BALDRIGE. I would not call that a subsidy, but that is a completely different subject. I am talking about their subsidies and grants to the industry. I mean giving them money. We don't have anything like that.

Now on the agricultural part, I agree with you; I agree with you wholeheartedly. We have been able to ameliorate the agricultural situation to some extent in the last negotiations that the USTR has had. It is still not enough, as you pointed out.

Most of our exports, although they've gone up 16 percent since 1979 in the agricultural area, three-quarters of them are really in our major raw materials that the Japanese absolutely need—feed grains, wheat, soybeans, and cotton. The semiprocessed exports have not done so well, beef, for example, we call a semiprocessed thing. Citrus juices and some of the others, as you pointed out, are still suffering from very major import quotas.

Now that situation has been, as I pointed out, ameliorated to some extend but not nearly enough. We are starting from a very low base to do 20 percent better or even 50 percent better.

What we must do is to set a major goal. Agriculture is an area where the Japanese Government should take a close look at the fact that it would be in their interest to increase imports and reduce subsidies to their farmers. Part of the protectionist reasoning may be that if beef, for example, is imported, a subsidy must be paid to compensate farmers for losses resulting from cheaper beef imports and inefficient farm operations.

That is not just old fashioned; it is incorrect thinking. There is a better use to make of that kind of labor.

Representative RICHMOND. Particularly in this case, Mr. Secretary, where Japan literally has no unemployment, those 600,000 farmers could be fitted into the employment market very, very easily. I wish we in America only had 2.2 percent unemployment.

Secretary BALDRIGE. Yes; that's correct. I think we have to do better in increasing agricultural exports, and I will guarantee you that I will take that as one of the Department's priorities where it is appropriate. I will certainly be supporting the cases you outlined to the USTR and the Agriculture Department.

Representative RICHMOND. Just think how much more cost effective it would be than for us to ship 7 tons of corn over to Japan for them to raise 1 one of beef, which we're doing now, and instead we could ship 1 ton of boxed beef, beautifully packaged, all ready to go right into the Tokyo market without any further handling, without any waste, because, as you know, our boxed beef industry is absolutely the best in the world by far.

Secretary BALDRIGE. And it would lower the cost to the Japanese consumer considerably.

Representative RICHMOND. By 400 percent. It seems to me that if the Japanese consumers should be just as irate as the American consumers.

Secretary BALDRIGE. I don't think the Japanese consumer, sir, gets a chance to eat much beef.

Representative RICHMOND. He would if he could afford it.

Secretary BALDRIGE. The people who eat beef are the industrialists on expense accounts in the major cities, who entertain customers that way.

Representative RICHMOND. Now that you mention that, Mr. Secretary, of the total gross national product of Japan, 0.04 of 1 percent is spent on business entertaining; 0.09 of 1 percent is spent on national defense. So they spend just half as much on business entertaining as they do on national defense, and that's wrong, for us to treat Japan as a little brother or a minor partner. As you know, they're full grown, and they're fully equal partners to the United States.

Secretary BALDRIGE. I would agree, sir. I really don't have any comment on Japan's defense effort—except to say that the fact that they don't have to spend in Japanese industry the time and talent on military research and development that we do—which means that they can concentrate on these other areas of R. & D. for civilian use. They can concentrate wholeheartedly on that because they do not have the military obligation.

Representative RICHMOND. And they have no intention of assuming any more of the military obligation, according to the latest statements of the Japanese Government.

Mr. Secretary, you know, possibly the root of all this problem is the fact that Japan has not had a reapportionment since World War II, so that the Diet of Japan is still apportioned as it was after World War II where a rural Diet member only needs 30,000 votes to get elected, and a Diet member from Tokyo needs 300,000 votes.

The Supreme Court of Japan apparently ordered a reapportionment, but the Diet doesn't seem to do anything about it. I believe if the Japanese people were truly represented in their Diet, they would then come around to feeling that maybe they should save this gigantic item of subsidization in their budget and start buying food from the United States; don't you?

Secretary BALDRIGE. I would think so, because it makes economic common sense.

Representative RICHMOND. Then when you look at the fact that here Japan lets us pay their defense bill, has a $10 billion surplus with us, then on the other hand has a deficit balance of trade with Canada and Australia almost equal to their surplus with us, and Canada and Australia do nothing at all toward Japanese technology or Japanese defense or anything else, I think it's just so totally unfair all around. I think once the American people and the Japanese people realize the real facts, a lot of this could be straightened out very quickly.

Secretary BALDRIGE. Maybe we need "one man, one vote" over there.

Representative RICHMOND. If we had that, things would change very quickly. I love our Australian and Canadian trading partners, but I don't think it's fair for us to carry the defense burden of Japan, have a $10 billion deficit where our two allies have gigantic surpluses in their trade with Japan, the reason being that they're protectionist. Both Canada and Australia, I understand, will only allow 50 percent as much manufactured goods as they ship out in nonrenewable natural resources. That, of course, is why they have a surplus with Japan. We're wide open here for every manufactured good Japan wants to dump on us. The American will buy everything they ship us. Their goods, as we both know, are attractive.

Secretary BALDRIGE. Well, our thrust, Representative Richmond, besides the agricultural area that you and I agree on, should be also in opening up their markets that have been protected in the past, particularly in this high technology area. They don't even compete with each other in their home market in the same sense that we know competition—you know, head-to-head competition with price cutting and everything that develops when people have equally competitive products.

They tend more to divide up, with the help of the government, segments, of their industry, and one company concentrates on that, one on another. If those markets were opened up all the way, you'd start to see that change in Japan, too, because some of our good companies would be over there knocking on everybody's door. That would create a change in that whole market structure.

Representative RICHMOND. We hear so often from foreign countries that American business is not export-minded. I don't believe that for a minute.

I believe if the climate in Japan were open to import American goods, our American manufacturers would have very little trouble suiting the Japanese market. They won't let us suit them; that's the trouble.

Take automobiles, Mr. Secretary. An American car in Japan costs considerably more than it would in the United States; doesn't it?

Secretary BALDRIGE. Yes. I don't have the exact figure in my mind, but they do put a special processing cost on because they inspect our cars almost one by one. There is a 2.5 percent tax. There is a commodity tax or sales tax, I guess you'd call it in our country, of 17.5 to 22.5 percent.

The last figures—and I am quoting from memory now—that I remember seeing were made on the value of a Ford Mustang, I believe cost at that time $7,000 in this country, would cost $14,000 in Japan.

However, to be fair to the Japanese, their own equivalent competitive model would perhaps cost $12,000 there. But that's still a $2,000 difference.

Representative RICHMOND. On the other hand, a Japanese car in Tokyo costs the same amount as it would in New York City, correct? We have no quotas, no taxes, no anything. We just import them and allow our people to use them.

Secretary BALDRIGE. I think we have a 2.6 percent tariff barrier; that is all. We are probably the freest trade-in-automobile country in the world. The European countries all have some kind of restraint on trade in automobiles as do the South American and Central American countries. So much has to be manufactured in the country; so much has to be exported. There are very high taxes which make buying a car almost prohibitive. We are the freest country in the world in automobile trade.

Representative RICHMOND. We certainly are and, I think, in about everything; aren't we?

Mr. Secretary, how has that allocation of quotas worked out? When I was in Japan, they had just about made an informal agreement to reduce their shipments of automobiles to the United States rather substantially. Now I notice in the export figures, they haven't.

Secretary BALDRIGE. Their desire was really the desire of the Japanese Government to have these voluntary restraints. They are the ones that sent the signals to us. We, as you know, complied, because we thought that was a far better way to go than to have quotas put on by legislative fiat, which would have been a large step backward for free trade. That was accomplished.

My latest understanding of the Japanese industry position is that they are still arguing about what proportional share each of their automobile companies is taking. I think that must be close to resolution, but I haven't heard if it has been resolved. But the actual restraint in total has been agreed to, as you know.

Representative RICHMOND. I noticed our last month's import figures from Japan are still as high as ever; aren't they?

Secretary BALDRIGE. Yes. But I have no worry personally that they won't be able to meet their restraint figures. They are very efficient at doing that by fiat if necessary.

Representative RICHMOND. Do you think it will taper off toward the end of the year?

Secretary BALDRIGE. Yes, sir, I do.

Representative RICHMOND. I would hope so, because I don't have to tell you what terrible condition our auto industry is in. When this country is going to produce only 6.9 million cars in a year and we've been geared up to produce 10 million cars as long as I can remember, you can see what a terrible depression the automotive industry is having. That's our basic industry in this country.

Secretary BALDRIGE. I think we will see that picking up in the late summer and fall; I really do.

Representative RICHMOND. I look forward to it.

On semiconductors, the Japanese recently agreed to accelerate the reduction of tariffs on semiconductors. What's that going to do to the semiconductor market?

Secretary BALDRIGE. Well, that is a guess. The industry itself has estimated it will increase their shipments by 10 percent just because of that single factor, but we'll have to wait and see how that works out.

The tariffs, as you know, are being lowered to, I think it's 4.2 percent for each country, which is a diminution on the Japanese side from 10 percent to 4 percent, and I believe on our side from 6-point-something to 4 percent. So we welcome that initiative, and it will help us, but it's an estimate right now—perhaps 10 percent increase in U.S. exports.

I think long-range it could be more than that, because that is a very conservative estimate. As I said, if we can get our companies over there selling in what has been a closed market before this. I think you will see some real changes unfold over the next 2, 3, or 4 years. But immediately we should be able to kick it up by 10 percent.

Representative RICHMOND. Just think what the change would be for the Japanese people. Right now, the three basic items of deficit in their Government's budget are their national railway which is, as you know, one of the miracles of the world. You can set your watch on the way those trains come into the stations.

Their national health insurance program—neither of which we have—we don't have a national railway system; we don't have a national health insurance program—and if they could convert their farm subsidies to starting to build housing, which seems to be the big need of the Japanese people, I think they'd be really helping their own people tremendously. The greatest need in Japan today is not subsidizing their farmers but subsidizing housing which the Japanese Government can't afford to do.

Secretary BALDRIGE. Yes, I would agree. They pay for that railroad, though Congressman. That is an efficient railroad system, but heavily subsidized, as you know, and with the size of our country, for us to try and even match that kind of a situation, would cost us more than I think we could afford to spend.

Representative RICHMOND. Unless we put it in a couple of our megalopolis areas—Boston to Washington, San Francisco to San Diego—where we have gigantic concentrations of people.

Secretary BALDRIGE. If we could get from Connecticut and New York City down to Washington, that would help me.

Representative RICHMOND. It would help all of us.

Two or three months ago, Japan announced its intention of returning to the practice of mixing export credits with foreign assistance loans offered on favorable terms. Can the current funding of our own Eximbank allow it to meet that kind of competition?

I know we've cut our funding lower than we have in many, many years.

Secretary BALDRIGE. Well, I agree with the need for reducing the Eximbank's financing, at least for this year, because of the greater need of getting the President's economic program through the Congress. We have to show that every segment of the Government is taking a share of the cut, or we would have great trouble getting the whole program through.

The Eximbank is really the only major program for assisting business to export. There just aren't that many business programs. So I agree with the theory of having to take the Exim cut, but I can't see the solution in having that a long-term situation if other countries are going to take advantage of us on their export financing by subsidizing. We still see in some cases, let us say where interest rates are around 19 percent, instances of countries financing major export programs with 7¾- and 8-percent credit.

If we cannot negotiate those down this year, I believe we should have a weapon of retaliation, a way of meeting those terms. Exports should be based on strict international competition and let the cards fall where they may based on merit of the products themselves, not how much the Government is going to subsidize a particular interest rate.

Representative RICHMOND. What weapon would you have in mind?

Secretary BALDRIGE. I think the Eximbank is the best one. It is under control there. It is in sophisticated hands.

Representative RICHMOND. It is the national vehicle for creating foreign sales; isn't it?

Secretary BALDRIGE. Yes, it is.

Representative RICHMOND. And as you say, it's the only one.

Secretary BALDRIGE. Well, we have OPIC and some insurance programs. But the kind of financing we are talking about, it is certainly the major one. But I think it is far preferable to negotiate down export subsidies with Europe and Japan than it is for all of us to get in that kind of a race.

Representative RICHMOND. In the area of investment, how open is Japan to direct American investment in Japanese industry?

For instance, can an American firm buy an existing Japanese firm in any line of business or set up a wholly owned business in Japan? Or must they only enter joint ventures?

What is the story of our ability to invest American money in Japan?

Secretary BALDRIGE. It is somewhat, in my opinion, shrouded in mystery. That is not answering your question directly, but on December 1, 1980, the Japanese did implement the new foreign exchange and foreign trade control law which incorporates the principle of freedom of foreign investment, except in specified situations.

The exceptions they made were in three areas—the agricultural sector—fisheries and forestry and so forth, in mining and petroleum, and in leather goods. They also have some exceptions in national security areas.

The new law does not expressly prohibit joint ventures or majority or even wholly owned investment jrojects. They are not prohibited—there must be prior notification, and a 30-day waiting period, but they are not prohibited.

Well, the new law sets a basic policy direction of liberalization here that the Japanese have talked about, but the Government of Japan still retains a lot of authority to block foreign investment that they feel will have—if I can quote—"significant adverse effects" on national security, the national order, the economy, or on domestic industry.

The new law gives them power to stop any particular foreign investment, either partially or wholly owned. How they will use that is the open question. They now have a basic policy set by law, but they can make all kinds of exceptions. The Government has retained enough authority to effectively stop a great deal of the kind of investment that might come in.

Really, we have to wait and see how it is implemented. We will investigate any cases should complaints arise. But it's been such a short time since the Japanese law went into effect that I can't really clear that question up for you completely, sir.

Representative RICHMOND. On the other hand, Japanese investment in the United States is also lagging, even though the Japanese have so much surplus capital that they've run out of space, they've run out of labor. When I was over there, I kept telling the Japanese "Why don't you just export your capital and your technicians to the United States. We'd welcome you here. There's an enormous market for your money and for your people in this country."

I met with Toyota people. The Toyota people have so much cash it's mind-boggling. I said, "Why don't you buy an interest in Ford and help Ford revive itself? "

They said to me, "Oh, you can't be serious. We're such a little company, and Ford is such a giant."

I said, "That's not true. You both produced 3.5 million cars last year. You're just as big as Ford ever was in the United States."

But I think if we could get the Japanese to understand that the world is a great big place and that Japan really, in order to develop, ought to export some of its money and its people throughout the world, I think the world would be a lot better for having Japanese industrialists here in the United States and other countries.

It's very interesting. The Matsushita Electric people tell me—incidentally, Matsushita Electric has a volume of $16 billion. They produce Panasonic, as you know, in this country. They have a volume of $16 billion, a net worth of $6.5 billion, $2.5 billion cash in the bank. They tell me their best factory in the world—they have 107 factories—is in Singapore. The Sony people, their best factory in the world is in San Diego.

Really, it's not the Japanese productivity that's so wonderful. It's the Japanese technical ability, their engineering, their design, and their managerial ability. We could certainly use some of it here.

But is there any more of a trend of Japanese companies taking an interest? Is there any chance, for example, for Japan investing in Chrysler?

Secretary BALDRIGE. Yes; there's a chance. As you know, Mitsubishi and Chrysler have been talking off and on. They've been doing some tough trading. One can never tell from reading any releases to the press exactly how things are going because part of that, too, you know, can be a bargaining tool. So I don't have any official position or inside knowledge—and I couldn't say if I did—on the progress of the talks. But that is clearly a negotiation that has been going on.

Ford has also been having some talks with Japanese investors. There's some real direction in the automobile business through the whole world, as you know, toward an eventual world car kind of setup where we may end up with five or six major automobile companies of mixed national holdings that will have plants throughout the world. Where labor is cheaper, they'll do some of the labor-intensive and simpler parts of the car. Where high technology is necessary, they'll do that in another part of the world and so forth. I think we will see a coalescence toward that kind of a thing.

I also think that we have seen a real trend in the Japanese going outside their own country and actually setting up plants and taking ownership with the risks that go along with it. We have seen it in the United States; we have seen it in the automobile business in the United Kingdom just lately. I think that is a desirable trend.

American workers, if they're given jobs, don't care who the stockholders are as long as their job is secure. And we have certainly invested enough abroad ourselves that we should not mind or be chauvinistic about inviting foreign investors in here to provide jobs for American workers. I think we should encourage that. I think the trend is there.

When you say "how much longer or stronger" it is going to be, that is difficult to predict. But my own prediction is that we will see more and more foreign investment in the United States.

Representative RICHMOND. It seems to me it would be the best investment Japan could make, investing some of their money, the technicians, and engineers—shipping them over here and really making some large amounts of money for their companies, don't you think, because we Americans don't much care?

Secretary BALDRIGE. Yes, I do. You know, Japan graduates four times as many engineers per capita as the United States does. On the other hand, we graduate, I think, 20 times as many lawyers per capita as the Japanese do.

Maybe there's a two-way trade we could make there. [Laughter.]

Representative RICHMOND. Mr. Secretary, that would just be wonderful. We would have some Japanese engineers in this country and ship some of our lawyers over there. They don't seem to have any legal problems. Everything is very well-organized.

Secretary BALDRIGE. No. They don't have enough lawyers yet to have problems. [Laughter.]

Representative RICHMOND. I know your Department supervises the multilateral trade negotiations. Have the Japanese—have you been monitoring their compliance with your most recent set of MTN negotiations?

Secretary BALDRIGE. Yes. As you know, the USTR really handles those negotiations and should. We do have a lot of supervisory responsibility. We're doing our best in that area, particularly on the Japanese problem.

I wonder if Under Secretary Olmer on my right would care to comment on that, if it's all right with you, Representative Richmond?

Representative RICHMOND. My pleasure. Under Secretary Olmer is here at a particularly propitious time. You're leaving for Japan tomorrow. I hope you'll carry the message of these hearings over to your counterparts in Japan.

Mr. OLMER. Given the speed with which communications exist between us and Japan, I'm sure your remarks will precede me.

We're doing what we think can justifiably be called a vigorous job at implementing the various codes pertinent to the general agreement on tariffs and trade. And I have to compliment the Japanese on making a both responsible and serious effort at cooperating in that endeavor. But as yet, it's really words on paper because no money has changed hands between the Japanese Government and American corporations.

We have great hopes, and, as you know, the purpose for my visit is to lead a delegation of about 70 U.S. businessmen who are desirous of taking advantage of the bilateral agreement on Government procurement of telecommunications and related products by Nippon Telegraph & Telephone, a public corporation.

Representative RICHMOND. You think that's one contract we're sufficiently technologically equipped to handle and commercially; right?

Mr. OLMER. Yes, sir, I do. I do feel that there are many, many U.S. companies that are presently capable of competing head to head with equivalent Japanese companies and that the problem will largely be one of gaining Japanese willingness culturally, structurally, and in their economic and financial system to accommodate foreigners in their midst.

The agreement provides for that in a legal sense. It's a question of getting them to adhere to the spirit as well as the letter of the law.

Representative RICHMOND. Let me ask both of you: My understanding is that the Japanese are allowed to depreciate their machinery in

1 year, if they wish. That seems to be the trend of our own Ways and Means decision.

Do you think once we modernize our own depreciation policy that that would make us somewhat more competitive with Japan?

Secretary BALDRIGE. I don't think there is any question about it, Mr. Chairman. We have seen a large increase in the last few months in the amount of investment plans announced by our own steel industry, for instance, far greater than has been the case in the last 4 or 5 years. I'm sure that depreciation reform was a factor that did play an important role in those decisions.

Now I don't think you want to discuss today the difference between the two kinds of depreciation reform we are talking about, because expensing in 1 year is not, as I understand it, accomplished in the new effort I read about yesterday that was brought up in the Democratic bill. That would not take place for more than, I think, 5 or 10 years out. But the idea of getting our depreciation of equipment and machinery down to a competitive position worldwide will absolutely, positively make a large difference in American industries' remodeling, renovation, and being up to date.

Representative RICHMOND. Certainly that would put us taxwise in competition with every other industrialized nation in the world, because I believe most nations have a considerably more modern depreciation plan than we have, don't they?

Secretary BALDRIGE. Yes. We penalize our industrialists more than any other modern industrialized nation I know of.

Representative RICHMOND. Mr. Olmer, I hope when you go to Japan that you will remind the Japanese that by shipping nonrenewable natural resources to them, we do nothing but create employment for them. By taking back their luxury goods, heavily manufactured, we do nothing but create employment for them. And why don't you ask them what they think we ought to do about a city like Detroit which is ready to go under because of our unemployment there, as our automotive industry is operating at about 50 percent of capacity?

Don't you think maybe in this small world of ours that ought to strike a responsive chord?

Mr. OLMER. I don't really believe that the advocates of agricultural protectionism in Japan take such an enlightened view as you suggest, Mr. Chairman. I think the answer I might get off the record would be that that's our problem.

Representative RICHMOND. Mr. Olmer, it's only our problem, provided we're willing to continue shipping $20 billion a year worth of the lifeblood of the United States with no labor content to it. If we were ever to decide to stop shipping some of that stuff—timber—when I heard that Anaconda ships its copper ore to Japan to be smelted—after all, Anaconda is owned by Arco; Arco is one of the richest companies in the world. It's kind of demeaning for us Americans to have to mine copper here in the United States and ship it over to Japan to be smelted and import the copper ingots back; don't you think?

Mr. OLMER. Well, Congressman Richmond, I agree with some of the remarks in your opening statement introducing this session, that in many regards we've become a developing country with respect to Japan. We do ship them raw materials, and they return in the form of manufactured goods. And this is an unhealthy situation, and it needs to be changed, and I think the administration needs your support in continuing to keep pressure on the Japanese to alter their system.

Representative RICHMOND. On this item, I'll certainly support the administration, Mr. Olmer.

Mr. Olmer and Mr. Secretary, I understand the Japanese have many, many more times the number of commercial attachés here in the United States than we have in Japan. Can you tell me, what are the facts on that?

I can't say I was particularly impressed with our own commercial people at the Embassy in Tokyo, for example.

Mr. OLMER. You probably didn't meet the right ones, sir.

Representative RICHMOND. I should have talked to you first.

Mr. OLMER. We have made a very serious effort at improving both the quantity and quality of our foreign commercial service representative in Japan. We have 9 professionals and 23 Japanese nationals, and within the next month we will add to that retinue a chap from a high technology company on the west coast, who will add, I think, greatly to the experience base.

But in comparison with other developed nations, as you well know—I think France alone has more commercial representation in the United States than the United States has commercial representation all over the world. Japan ranks very close to France and West Germany and the United Kingdom in that regard.

We cannot match them person for person. We don't have the personnel or budgetary resources to do that. We have a number of programs in mind to make up for what we lack in quantity with quality representation, and we are trying to implement a series of training programs aimed at eliminating the identity crisis that I think was the hallmark of the foreign commercial service when it was managed by the Department of State. You will have to give us about a year in which to measure whether or not we have been successful.

Representative RICHMOND. I assume the goal will be to have as many American representatives in Japan and other trading partners of ours as they have here.

Mr. OLMER. Again, sir, I don't think we can actually match them number for number, but we're going to do our darndest to increase the number and increase their ability to perform.

Secretary BALDRIGE. Representative Richmond, with your permission, I am supposed to be due at the White House at 3 o'clock. Under Secretary Olmer can stay, if it is all right, because he is an expert in this area.

I'd like to add one thing. I am delighted with the conversation I had with Secretary Haig on the subject of ambassadors working to improve trade, prospects for trade, helping our businessmen abroad.

As you know, the State Department's performance in the past has not always been equal to that of some of our competitors in the amount of time our ambassadors have spent in getting American businessmen and their exports accepted in a given country. There have been some fine examples of cooperation, but there have also been many who did not look on export promotion as a major part of their job.

Secretary Haig agrees that it is and should be a major part of their job and is beginning to get that idea across to his ambassadorial staff, and I'm delighted with the fact that I have had a great many calls and personal visits from our outgoing ambassadors to find out how they can help, how they can cooperate.

I think that's a great tool. I won't say an "unused tool," but a partially used tool that we can improve on in this administration.

Representative RICHMOND. Mr. Secretary, thank you so much, and I appreciate your coming. You started off our hearings in a great State. Thank you very much.

Secretary BALDRIGE. Thank you.

Representative RICHMOND. Mr. Olmer, you're free to make any comments you like. Have we missed anything?

Mr. OLMER. The Secretary has said it all, sir, but I'm ready for any questions you may have.

Representative RICHMOND. I know in the Secretary's prepared statement, he referred to the Japanese syndrome of preferring to buy domestic goods and avoiding imports whenever possible, which is a basic change in the Japanese attitude. You know, we Americans had that attitude years ago. If it came from the Far East, we automatically thought it was of poor quality; now we take the opposite view. We assume it's better quality than American.

Is it going to take years and years to change that attitude or a reasonable amount of time?

Mr. OLMER. If left to its own natural devices, it would take forever, Congressman. There is a direct correlation between the willingness and the consistency of the U.S. Government to work with the Japanese Government to accelerate the process of change.

A number of astute observers of the relationship of the United States and Japan in the area of trade have commented in published reports that it would serve the Japanese to create a high-level entity in an office close to the Prime Minister's office. One went so far as to give it a name and suggested the name, the National Import Council, the purpose of which would not be to just buy U.S. goods and services but to aid in the process of sensitizing the Japanese buying public and large manufacturers to the responsibilities of a great nation in terms of opening its markets to foreign producers.

I have personally gone on record as recently as yesterday in a speech I gave before the United States-Japan Businessmen's Council in New York City to comment favorably and endorse that recommendation which had been made by the Wisemen's report and also been made by the American Chamber of Commerce in Japan, which is a very effective observer and analyst of the trade relationship. I think that's one thing that could be done.

Moreover, I return to the earlier remark I made. If left to their own devices, they'll resist change because things are comfortable the way they are.

Representative RICHMOND. Even when they find out that they're paying five times too much for food? Wouldn't that bother them?

Mr. OLMER. Well, as you know far better than I, there's a very small percentage of the Japanese population at the top end of the income scale and a very, very small percentage at the low end of the income scale. Most of the people don't look across the street and want to keep up with the Joneses; they are the Joneses or the Suzukis, and they're earning roughly the same amount of money and enjoying relatively the same kind of standard of living. And it's not just acceptable; it's a comfortable standard of living.

We look to them, and we'd like to emulate them in many ways. Certainly, the crime rate in Tokyo is something to be applauded.

Representative RICHMOND. Along with the literacy rate.

Mr. OLMER. And the literacy rate and a number of other things. But I think part of the reason for those conditions stems from the cohesiveness and the homogeneity of the society. That has its impact on the attitudes of the Japanese public and the Japanese manufacturers in buying foreign made goods, component parts for the assembly of larger products, as well as raw materials and commodities such as agriculture.

Representative RICHMOND. Of course, the great genius of the United States is that we're not homogeneous. We have great drive and imagination, and we've been able to survive.

Mr. OLMER. I think there may be a sense in Japan that if they were totally open, the United States could roll right over them with goods and services. I'm not entirely sure it's an unwarranted concern on their part.

Representative RICHMOND. I think if we just rolled right over them on goods and services, we can produce cheaper than they can. On the other hand, we'd be happy to buy their goods and services. That, to my mind, would be a two-way street. Right now we do not have a two-way street.

Mr. OLMER. Right now we do not wish a two-way street.

Representative RICHMOND. We're certainly in agreement, Mr. Olmer, and I wish you bon voyage. How long are you going to be away?

Mr. OLMER. I leave on Saturday; I return next Friday evening. That includes a day and a half in Korea.

Representative RICHMOND. I hope you have a wonderful trip. I look forward to talking with you when you get back.

Mr. OLMER. Thank you, sir.

Representative RICHMOND. Thank you.

At 4 o'clock, the Honorable Robert Ingersoll, Cochairman of the Japan-United States Economic Relations Group and former U.S. Ambassador to Japan will be here. Mr. Nobuhiko Ushiba, former State Minister for External Affairs of Japan and former Japanese Ambassador to the United States will be here, along with Prof. Hugh P. Patrick, professor of economics at Yale University. They are the three gentlemen that issued that Wiseman's report.

This meeting will stand recessed until 4 o'clock.

[A short recess was taken.]

Representative RICHMOND. Thank you for waiting, ladies and gentlemen.

Our next witnesses will be the Honorable Robert Ingersoll, Cochairman of the Japan-United States Economic Relations Group. Mr. Ingersoll is a former U.S. Ambassador to Japan; the Honorable Nobuhiko Ushiba, former State Minister for External Affairs of Japan, Mr. Ushiba is the former Japanese Ambassador to the United States; and Prof. Hugh P. Patrick, professor of economics, Yale University.

Good afternoon, gentlemen. I'm sorry to bring you here on a Friday afternoon, but we're still most anxious to hear your remarks.

STATEMENT OF HON. ROBERT S. INGERSOLL, COCHAIRMAN, JAPAN-UNITED STATES ECONOMIC RELATIONS GROUP, ACCOMPANIED BY HON. H. P. NOBUHIKO USHIBA, COCHAIRMAN; AND PROF. HUGH P. PATRICK, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. INGERSOLL. Thank you very much, Representative Richmond. I have prepared a statement which I will not read but I have given to your staff, and for the matter of brevity, I will just perhaps summarize some of the thoughts we have and leave it open for questions.

Representative RICHMOND. Your entire prepared statement will be included in the record.

Mr. INGERSOLL. Thank you.

The Japan-United States Relations Group was formed as the result of a joint communique between President Carter and former Prime Minister Ohira in May 1979. We got underway late in 1979 and have been involved in making a study and a report to the President and the Prime Minister in January of this year.

Our charter was to look at the long-range economic relationship between Japan, say, covering the next decade and try to make recommendations that would improve the economic and trade relations which during the seventies seemed to impact adversely on the political relations between our two countries. We studied many areas and many issues, but the important ones were energy, the productivity of the American economy, the openness of the Japanese market some individual American industries and Japanese industries such as steel, auto, semiconductors, and computers, the agricultural relationship between our two countries, particularly the impact of Japanese agricultural policies on trade between our two countries. Then we looked at the trade laws in the United States and antitrust laws that to foreigners at times seem to be conflicting and overlapping. Then finally we tried to give some advice to negotiators on both sides of the Pacific when they deal with economic and trade issues in the future.

I will not attempt to cover the 107 pages of the report nor the 455 pages of the appendix which we assembled and had printed. I will just mention a few major recommendations that we made.

I think one of the most essential was that our two governments need to establish or revive consultative mechanisms which will permit cabinet and ministerial level personnel, as well as subcabinet and working level personnel, to meet on a regular basis to review the various issues which we presented and which arise between our two countries regularly.

We also mentioned that the energy issue and particularly the potential for interruption of oil supplies from the Middle East would be one of major import to our two countries and recommended that there be a crisis management study made on the impact of a major interruption. And in subsequent discussions with both governments, we have modified that to suggest that both of our countries take the leadership role with the members of the IEA to prepare such an emergency plan.

We recommended that the American Government eliminate or at least reduce substantially the rate of inflation in the United States which, if it is not accomplished, it's going to be difficult to have the American economy compete successfully not only with Japan but with other nations in the world, and if that rate of inflation which we have experienced in the last couple of years continues, other, efforts to ameliorate the trade difficulties with Japan probably will not be successful.

I would believe that we would be open to questions on the report that we have made, and we would also be willing to discuss other aspects of United States-Japan relations, since Ambassador Ushiba has had very extensive experience in this line, and Mr. Patrick from the economics side has been studying Japan most of his career.

[The prepared statement of Mr. Ingersoll follows:]

Prepared Statement of Hon. Robert S. Ingersoll

INTRODUCTION

On behalf of the U.S. and Japanese members of the Japan-U.S. Economic Relations Group I would like to express our appreciation for the opportunity to testify before the Joint Economic Committee today. The Group feels that the policymakers and public at large in both countries need to be reminded of the fundamental importance of the bilateral relationship and the underlying reasons for the complex problems we face if we are to provide effective long-term solutions. We are encouraged by the increasing interest on the part of the Congress in the broader considerations of the long-term U.S.-Japan relationship, and the importance of developing a comprehensive forward-looking approach to the management of the U.S.-Japan relationship.

HISTORY AND MANDATE OF THE GROUP

The Japan-U.S. Economic Relations Group is a binational group chaired jointly by myself and former Minister for External Economic Affairs Ushiba established in the Carter-Ohira Joint Communique of May 2, 1979. The U.S. members are A. W. Clausen, President of the Bank of America (who resigned when he was named President of the International Bank for Reconstruction and Development); E. W. Spencer, Chairman of Honeywell, Inc.; and Dr. Hugh Patrick of the Economics Department at Yale University. The Japanese members are Shuzo Muramoto, President of Dai-Ichi Kangyo Bank Ltd. (who resigned when he became chairman of the Banker's Association this spring and has been succeeded by Isamu Yamashita, Chairman of Mitsui Engineering & Ship Building); Akio Morita, Chairman and Chief Executive Officer of Sony Corporation; and Kiichi Saeki, Chairman of Nomura Research Institute.

The mandate of the Group was to submit to the President and the Prime Minister recommendations that would help to maintain a healthy long-term bilateral economic relationship. The Group undertook a research agenda of specific studies and held four binational meetings last year. We completed our report to the President and Prime Minister in late 1980 and submitted in it January 7, 1981. Since that time the U.S. and Japanese members of the Group have devoted their time to developing greater public and private sector understanding of the conclusions and recommendations contained in our Report, and to planning a second, supplementary Report which we plan to submit in September. At the end of the 1981 fiscal year, when the Group's mandate expires, it is scheduled to go out of existence.

I am encouraged by the excellent working atmosphere which the Group developed in approaching the complex issues which define our bilateral economic relationship. The fact that eight private citizens can agree on so much makes me optimistic about creating the kind of "productive partnership" which the late Prime Minister Ohira recognized would emerge as the foundation of our bilateral relationship. I should point out that we in the Group are not alone in working toward this objective. This Committee, and other organizations such as the

Advisory Council on Japan-U.S. Economic Relations, have played a major role in developing a broader understanding of economic issues within the context of our overall economic, political, and security relationship.

A number of steps the U.S. and Japan should take are noted in our Report. Among them are:

1. Alaskan oil, which is surplus on the U.S. West Coast, should be exported to Japan in exchange for other oil already committed to Japan to improve the efficiency with which currently available petroleum supplies are transported and used.
2. Both countries need to address urgently the overcoming of impediments to a healthy trade in cola. If the ample U.S. supplies were being exported to Japan, both countries would benefit in both the energy and trade fields.
3. To develop alternative supplies of energy supply, there needs to be very substantial increase in R. & D. in energy related technologies, particularly by Japan.

THE BILATERAL TRADE IMBALANCE

Among the most politically divisive issues in U.S.-Japan economic relations is the singular and simplistic focus in the U.S. on the bilateral merchandise trade balance. For example, the House Ways and Means Trade Subcommittee Report on U.S.-Japan Trade issued on September 5, 1980 noted that "from an economic point of view, a bilateral merchandise trade deficit should not be an object of great concern, as long as a nation's worldwide current account (goods and services) is in rough balance. This economic truth is a political falsity."

This statement underlines the need for the Administration and Congress to play a more active role in educating their colleagues and the public on the global dynamics of trade and investment, and the benefits this system offers for both our economies.

The focus in the U.S. bilateral merchandise trade balances also encourages U.S. trading partners, specifically Europe, to turn the argument against the U.S. to reduce their own bilateral trade deficits with the U.S.

U.S. ECONOMIC MANAGEMENT

Better U.S. economic management and strengthening of the supply side of the U.S. domestic economy could be one of the most important factors in improving U.S.-Japan economic relations. As long as the U.S. economy suffers from inflation, low savings rates, low rates of capital formation and investment, inadequate expenditure on research and development, burdensome and counterproductive regulation, and low productivity growth, the U.S.-Japan economic relationship will face severe strains.

We urge the Congress to take prompt action to enact legislation to improve U.S. productivity performance and competitiveness in world markets by creating a non-inflationary, stable economic climate and developing longer term policies to improve savings and investment rates, stimulate R. & D., and reduce regulatory burdens. This is an important lesson in supply-side economics we can learn from Japan's postwar growth experience.

Given the proper economic environment, it is primarily the responsibility of the private sector to improve the productivity performance and increase the global competitiveness of US industries.

JAPANESE MARKET ACCESS

The issue of foreign access to Japan's growing market for goods and services represents a serious problem in U.S.-Japan relations. The issue leads to strong resentments on both sides, often bitterly expressed in the political arena and widely reported in the media, affecting other areas of the relationship.

The American perception of the Japanese market as closed to foreign business has contributed to tensions in the bilateral relationship. One of the principal justifications for protectionism in the U.S. is the accusation that Japan does not provide reciprocal access to its domestic market.

The Japanese perception is that Japan's market for manufactured goods is as open as any in the world, and that American businessmen have not taken advantage of growing market opportunities. Moreover, there is growing Japanese concern with signs of protectionism in the U.S., and a tendency for U.S. to use Japanese industry as a scapegoat for its own failures.

It is impossible to objectively determine how "open" a nation's market is. Such diverse elements as formal tariff and quota structures, official standards, customs, and approval procedures, less formal and extralegal measures such as administrative guidance, as well as intangible attitudinal restraints all have an impact.

The results of the Group's research suggest that in terms of tariffs and quotas, the Japan market is as open as the American market for comparable manufactured goods. In terms of government procurement practices, foreign investment rules, entry of services, and procedures for standards, inspections, and testing, Japan's market is not as open as the American market and more needs to be done to liberalize market access in Japan's own national interest.

The Group agreed to recommend several measures to both governments, among them:

The creation of a powerful central office within the Japanese government for the consideration and resolution of trade and investment problems.

Greater public visibility of and access to Japanese economic, trade, and foreign investment policy processes.

Bilateral public and private sector support of the Trade Study Group in Tokyo in addressing generic industry problems.

It is important to keep the issue of Japanese market access in proper perspective. In the words of the Congressional U.S.-Japan Trade Study Group Report of 1980: "Any long term improvement in the bilateral trade imbalance will depend more on improved performance by U.S. business and government in promoting exports than on the removal of remaining Japanese non-tariff barriers."

"We recognize that even the total elimination of nontariff barriers would not have a dramatic effect on U.S.-Japan trade, at least in the short run. There are more fundamental and difficult steps to be taken to reduce the trade imbalance, particularly on the side of the United States."

INDUSTRIAL TRADE ISSUES

Competition in industries such as textiles, steel, TVs and automobiles have been major sources of economic dislocation and political tension in U.S.-Japan relations. This is the inevitable result of dynamic global trade and investment patterns which take advantage of rapidly changing markets and competitive positions.

Global trade and capital flows force domestic economic adjustment through the market mechanism; public policy can either impede or facilitate this adjustment process. This process of adjustment benefits consumers through better products at lower prices, and benefits producers in the longer-run through competition as well as through expanded market opportunities.

Our Group counseled against government interference in this area either through domestic subsidization or restrictions directed at imports. We feel all the more strongly about these issues in the light of events of recent months. Many European countries seem to be moving toward protectionist actions. The U.S. and Japan have a strong interest in countering such tendencies that strike at the essential basis of the international trading system.

ITEMS TO STRESS

From the many conclusions and recommendations in our January Report, we have stressed the following as items that can be implemented relatively quickly and are of great importance to U.S.-Japan economic harmony:

A meeting this year of U.S. Cabinet officials involved in economic policy and their Japanese counterparts.—Such a meeting will help the economic policymaking officials of the two countries become acquainted with their opposite numbers, their interests and concerns, and their current thinking on economic issues of importance to both nations.

U.S.-Japan leadership in undertaking a petroleum supply crisis management study within the IEA framework, leading to the formulation of specific measures to be taken in the event of a large-scale energy emergency.—The Iranian situation has shown that political change can quickly affect oil supplies. A prolonged significant interruption would have a devastating effect on the economies and political conditions in Japan, the U.S., and the rest of the world. The free world countries are not now adequately prepared to deal with such a situation, and it is imperative that the U.S. and Japan, as consumers of 50 percent of the petroleum in world trade, provide leadership in initiating multilateral planning on an urgent basis.

Swap of Alaskan oil with Japan.—A swap of Alaskan oil to Japan in return for other oil now committed to Japan would economize on transportation costs, benefitting consumers in both countries, help the bilateral trade balance, and demonstrate the U.S. commitment to petroleum-sharing.

Establishment of a trade ombudsman office in Japan.—The creation of a powerful, central trade ombudsman office in Japan would help Japan better implement its open trade policy, serve as a focal point for handling trade complaints, and demonstrate Japan's commitment to access to its domestic markets.

Resolution of industrial problems in accordance with free and fair trade principles.—Neither government should use the other country as a scapegoat for domestic problems. Trade protection is inconsistent with the principles of economic efficiency, free competition, and the maximization of consumer benefit. Both governments should adhere to international commitments and rules such as those agreed to through GATT negotiations.

CONCLUSION

In the future, both the Japanese and U.S. members of the Group will devote their efforts to encouraging the implementation of the policy recommendations in the report and stimulating broader discussion of these critical issues in both countries. We have considerable humility regarding our recommendations. They are not particularly novel, and they have a political cost in both countries.

The new beginning of the Reagan administration provides the opportunity for new approaches to our most important ally. Our report gives a series of recommendations which deserve careful study by the Administration, Congress, and private industry in the interest of maintaining the healthy long-term economic relationship with Japan.

The first report of our Group represents a new channel for advice to the two governments; a different viewpoint that is less burdened by the short-term political constraint of what can be done and is more concerned instead with the long-term reality of what must be done.

Representative RICHMOND. Thank you, Ambassador Ingersoll. Ambassador Ushiba.

Mr. USHIBA. I have no particular statement to make at this time. Perhaps I will be available later on, if you wish.

Representative RICHMOND. Thank you, Mr. Ambassador.

Mr. Patrick.

Mr. PATRICK. I'm also available for questions. We've left it to Mr. Ingersoll.

Representative RICHMOND. All right, then. Let's get down to business.

You all know the parameters of the problem which struck me with such intensity during my 11-day trip to Japan. I believe neither the American people nor the Japanese people have any idea of the real relationship between the United States and Japan as far as defense or trade goes.

This afternoon we're not going to discuss defense. I think we'll discuss defense when Secretary Weinberger appears before this committee, but just on trade alone, I think we all have to agree that something is basically wrong. It's unfair that a one-way arrangement can exist in the present world where our trading partner is no longer a weak trading partner but has a fine standard of living, a wonderful level of education, a wonderful level of technical excellence, and in every way is more than capable of living well and competing with his American counterparts.

As you know, we exported from the United States last year \$20 billion worth of nonrenewable natural resources. As you know, the feed grains were a large part of that. Other items like phosphates, copper, iron ore, coal, the very lifeblood of the United States, all of which has very little labor content in it because natural resources per se are those products that just come out of our land and require very little labor to ship in bulk over to another country.

So what are we doing? We're taking $20 billion worth of our own low-priced natural resources—as you know, our natural resources haven't climbed up with inflation at all. The price of corn, wheat, and soybeans right now is roughly the same as it's been for many, many, years. So our resources are an incredible bargain.

And what do we do? We ship those out, and we take back $30 billion worth of heavily manufactured, large labor content, luxury goods which the American people don't need, but since we're free traders and since we open our markets to everybody, the American people choose to buy.

Now you couple that $10 billion trade deficit—because we are not protectionist and we allow anybody to ship anything they want to this country that Americans are willing to buy—we couple that trade deficit with the trade surplus that Canada and Australia have with Japan, which is roughly the same proportion, even though not as large—in other words, while Japan has a surplus of trade with us of $10 billion, it has a deficit with Canada and Australia of about $5 or $6 billion for the simple reason that those countries are protectionist and only allow 50 percent as much manufactured goods to come into their country as they ship out in nonrenewable natural resources.

Couple that with the fact that we Americans are paying the price of defending the Japanese. Couple with that the fact that we certainly have $10 billion worth of food to ship to Japan each year, which would balance our deficit balance of trade, and which would give the Japanese consumer much cheaper food. What I'd like to know from you three distinguished gentlemen is, how long is it going to take before some of these things can actually be rectified?

Mr. Ingersoll. You mean a change in the trade imbalance?

Representative Richmond. A change in the attitude of the American people, a change in the attitude of the Japanese people, a change in the attitude of the Japanese Government, which, as you know, is controlled by the Liberal Democratic Party which in turn is controlled by the 140 Diet members from rural areas. As you know, they haven't had a reapportionment since World War II. In fact, the "one-man, one-vote" rule, while it applies here in the United States, hardly applies in Japan. So you have the foundation of the Liberal Democratic Party being 140 Diet members who represent very few people, including the 600,000 farmers who are so heavily subsidized, as against all of the other Japanese, most of whom live in the megalopolis from Yokohama in the south to Osaka, and they're underrepresented because their Diet member requires 10 times as many votes to be in the Diet as the rural member.

What I'd like to know is, what measures will be necessary to get the Japanese people and the American people to understand what the situation is and then what happens after that?

I know, Ambassador Ushiba, it's a big question, but can you and Professor Patrick and Ambassador Ingersoll give some answers to that question? You know, clearly something is wrong and so patently wrong it just can't continue year after year.

And as I said before you arrived, Ambassador, Japan is running a deficit in its Government not because of its health insurance, not because of its national railway, but because of the huge subsidization of its farmers. Just think, if we could supply those farm products and put those 600,000 farmers into the Japanese labor market where they're obviously needed, just think how it would help the Japanese Government to do what it really ought to do—take that money and build housing which it seems to me is the greatest need Japan has.

Japan doesn't need to pay its farmers 500 percent more for growing beef than we can produce it, nor does it need to pay its farmers 500 percent more for growing rice than we can produce it. What Japan really needs to do is take those farmers and put them in construction gangs and start building housing for Japan.

How does one right this rather sick situation we have now? And let me ask you, is there one word in my statement that I've made that is not true or that you disagree with?

Really, what I'm giving you is totally factual.

Mr. INGERSOLL. You mentioned $21 billion of nonrenewable natural resources going to Japan. I think that includes the grains, which are renewable.

Representative RICHMOND. Grains are not renewable, because every time you ship a ton of grain off a farm, you're shipping a certain amount of topsoil, you're shipping the very nutrients in the soil which are not really renewable. Our loss of topsoil in the United States is absolutely mindboggling, and our loss of agricultural land is mindboggling. We keep shipping this merchandise to Japan with very little content. In Nebraska, for example, it requires only one person to till 500 acres of wheat.

Mr. INGERSOLL. I think the American farmer would be very sorry to lose the Japanese market if they couldn't ship that grain to them.

Representative RICHMOND. Mr. Ambassador, my idea is that the Amercian farmer would love to ship that corn to a feedlot, allowing the beef producers to grow their beef, feed their cattle American corn, ship their cattle to a slaughterhouse, let their cattle be slaughtered in our own American slaughterhouses, and convert it into boxed beef and ship a huge refrigerator ship full of boxed beef to Japan. We could bring the cost of beef at retail in Japan from $30 a pound to $5 a pound. We can ship it and make a nice profit at $3.50 a pound.

Mr. INGERSOLL. I agree.

Representative RICHMOND. Take rice. My friend, John Breaux from Louisiana, says that his State can supply Japan with all the rice it wants at $400 a ton, yet the Japanese Government subsidizes its own farmers to grow rice on land that they don't have for $2,000 a ton. These are some of the inequities, it seems to me, the American people and the Japanese people ought to become aware of and get their own governments to start taking some steps to change.

Mr. INGERSOLL. This is one of the issues we did raise in our report, Representative Richmond. We suggested a major change in Japanese agriculture. This was a joint report of the Japanese members of our group and the American members.

I think you're aware of the great hold that the agricultural interests in the United States have on certain products and certain markets they have, and a similar condition prevails in Japan. Japan is not self-sufficient in food. There is a great fear that if they should reduce their own self-sufficiency to a greater degree, that they would be more vulnerable than they are at the present time, should there be an interruption of supplies.

So it is a highly political issue, as you already point out.

Representative Richmond. Except, Mr. Ambassador, when the Agricultural and Fisheries Ministry said the same words to me, I said:

> It seems OK for us to pay for your defense, doesn't it? You don't want to put up any money for defense. You want the United States to defend you. If you want us to defend you, why don't you let us feed you also?

And they said:

> Oh, well, we wouldn't think of that. We must be self-sufficient on rice and basic staples.

Yet they're self-sufficient at five times the cost it would take us to supply that same product.

Mr. Ingersoll. This is a political discussion that's going on in Japan, and there are many elements in the citizenry that don't agree with the farmers. They want to reduce the subsidy that the farmers are receiving. It's a political process that will eventually resolve it.

I'd like to turn to Mr. Patrick, who has much more background on this than I, to give you some of his views.

Mr. Patrick. I think you have raised a number of important issues, both in substance and of American perceptions about Japan. We tried to address some of those in the report.

I think it's useful to start our discussion on agriculture, because it's clear that that's the area in which Japanese import barriers remain the greatest.

Representative Richmond. And it's the area where we can accommodate the Japanese market so efficiently and really save the Japanese people an awful lot of money.

Mr. Patrick. I think that's certainly true. The United States as a great comparative advantage in economic efficiency in producing gricultural products which directly or indirectly we export. This is n area of great productivity improvement over the last 10 years, he last 50 years, and it's an area of expanding comparative advantage for the United States. Certainly, it's not an area of Japanese advantage.

There is an adjustment process that's underway that takes time. Japan has a kind of bifurcated situation. On the one hand, Japan is by far the United States largest market for agricultural products, and American agricultural exports are its most important single source of supply.

Representative Richmond. Except, Mr. Patrick, you know those agricultural products, by and large, are used to feed animals.

Mr. Patrick. That's certainly true. And this is an area of inefficiency. I agree with you that that's a question of political expediency. But I understand that that happens in all countries that are democratic societies, where we have conflicts between economic efficiency and the political expediency to which our legislators are subject.

Representative RICHMOND. Mr. Patrick, how democratic is a society when they haven't had a reapportionment since World War II?

Mr. PATRICK. I agree with you that reapportionment is a serious issue. I would point out that 80 percent of the ruling Liberal Democratic Party vote came from nonfarmers in the last election. So there has been a substantial transformation of the Liberal Democratic Party from being primarily agrarian-based to one that is now much more urban based. Nonetheless, it does receive a lot of agrarian support and, because of demographic changes—and as you indicate, a lack of reapportionment—there is a serious imbalance in terms of voting power. It's somewhat analogous, I suppose, in the United States to the case of the Senate in which we have two Senators from each State, regardless of population.

Representative RICHMOND. Except that we also have a House of the people.

Mr. PATRICK. We certainly have a House of the people. You might argue that the Japanese have an Upper House of the people in that it reflects a national constituency plus local constituency. Personally, I agree with you, but I'm not running Japan. It's their own society, and they pass their own laws. I understand the issue that you raise, and I think it's a very real one.

Given that reality, the question is, to what extent will Japan continue to adapt and change its agriculture?

Our recommendations are that Japan should undergo a profound transformation of its agrarian structure. Indeed, it has already undergone that through market forces. The population—the labor force—which was 40 percent agrarian in 1955 is now less than 10 percent. That process will continue. It will continue mainly through market forces because it's so inefficient to grow food products, as you indicate, in Japan.

Representative RICHMOND. Except the government perpetuates this by all types of tariff barriers, by all types of quality barriers.

Mr. PATRICK. That's right. They are worried about the adjustment process and have slowed down the adjustment process in the agricultural industry.

Representative RICHMOND. You know, the food and vegetable manual used by the Japanese Government is exactly five times larger than ours. Our own agricultural attaché in our Embassy in Tokyo tells me that to change one page in that manual takes 30 signatures from 30 different agencies of the Japanese Government.

Mr. PATRICK. I'm impressed to know that their bureaucracy is even more bureaucratic than the American. [Laughter.]

Representative RICHMOND. It's kind of amazing to think of trying to ship a vegetable in or a melon or some citrus or what have you, how impossible the Japanese Government's regulations make it, even though they obviously need these products. Why should a melon cost $35 in Japan when we can produce that same identical melon for $1 or $2 in California?

Mr. PATRICK. I agree with you. I think that generally the principles of free trade suggest that all kinds of commodities should be available to consumers in all countries at the lowest price, like automobiles in the United States or melons in Japan. And I agree very much with you on this point.

I think we have to understand the adjustment process underway there. The projections I have seem suggest that Japanese agricultural production in absolute terms will not rise over the coming years; in fact, it will decline somewhat. Demand will grow, both because incomes will rise and because there will be a larger population.

That suggests that all the increment in calories almost inevitably will be imported. This has produced an internal political dynamic in which that reality is very hard for the polity to accept, particularly the agricultural polity. It is a complex political process that is underway and, I think, underway in ways that are favorable toward more trade.

So my projection is that we will see Japan importing more and more foodstuffs, but not always of the kind we would like. They may well decide they will always want to grow their own melons, even if very inefficiently. But the melon market is nothing like the wheat market. We're talking about a $5 million or $10 million melon market. When we're talking about wheat, we're talking about billions of dollars. We have to focus on those important markets.

Representative RICHMOND. You can talk about the citrus market, though, which is awfully big.

Mr. PATRICK. The citrus market is a $50 million market. The wheat market and the corn market and the soybean and the sorghum markets—they add up to $5 billion. You are right about citrus and a number of other such items; I also would like to see Japan remove their restrictions. But in iterms of American economic interests the real priority should be on the big ticket items, which are the grains. There our prospects are good.

Another important thing is to be sure that we have market access and to reassure the Japanese that their reliance on us as a reliable supplier is justified.

Representative RICHMOND. Mr. Patrick, though, I have to repeat that the mere fact that the Japanese are good enough to let us ship them grain in exchange for their luxury goods doesn't really solve American problems. Our grain right now is terribly inexpensive. We produce it efficiently; we're the cheapest grain producer in the world by far, but there's no labor content in it.

Now if we ever are going to get America back to work and get the American economy improved, we have to ship more than grains. In other words, Japan has to treat us somewhat better than a colony. We're not a colony of Japan, except from our trade record, it would look as though we were a colony.

Mr. PATRICK. I think there are very different views on how one looks at colonies. There are colonies that are only primary producers and nothing else.

The United States has the strength and the advantage of being one of the most diversified and efficient producers in the world, whether it is manufactured goods or agricultural products or natural resources or indeed services. I think the strength of our economy lies precisely in our diversification. Our strength also lies in picking out those areas where we take advantage of our competitive strengths.

Agriculture happens to be one of them. It is not just because we have abundant land; it is also because we have high technology, programs for research and development that have paid off over the years. This is one of the areas in the United States in which we have done a superb job in terms of technological improvement, modern capital equipment, combining with labor and land in a very efficient way.

Certainly, that does not solve our employment problem. I agree with you very much. We are predominantly a service economy. Some of our services are traded, but not most of them. We have to worry about solving our employment problems. Part of it will be through exports. My own sense is that most of it will be through domestic policies and domestic demand.

Mr. INGERSOLL. I'd like to raise that particular subject with you, Representative Richmond. One of the chapters that we put a great deal of effort into applies to the United States internationally, not just in relationship to Japan. We believe very firmly that it is essential that the American economy be restored to the same kind of productive incentives that it had, say, immediately after the war. We feel that there have been governmental regulations and burdens placed upon industry, plus the high rate of inflation, which has caused industry to look at the short-range investments rather than long-term investments which will give us a competitive advantage.

I would like to say that I think this administration is trying to turn that position around by reducing government regulation and by providing incentives for saving and for investment in machinery and equipment which will make us competitive with the rest of the world. This will help us to ship more products to Japan as we become competitive in these particular markets.

Representative RICHMOND. Let me ask you something else. What's your attitude on the Japanese willingness to allow American firms to invest in Japan?

Mr. USHIBA. I think you have to understand that we are a different country as far as economic structures are concerned—the United States and Japan. We have no energy sources; we have only about 40 percent self-sufficiency in foodstuffs; we have no iron, no coal, and so on, you see. Therefore, we have got to spend about half of our export proceeds for imports of energy, and the other 50 percent we are spending for imported foodstuffs and other raw materials to keep our national life and also industry alive.

Though the imports are very high and while the United States has almost no imports of foodstuffs and about 20 percent of petroleum, but still the greater self-sufficiency in energy is much higher—no comparison with Japan.

So what is a country like Japan to do to maintain their national existence and to keep their industry going? To export manufactured goods. That's the only way we can survive. Therefore, problems, of course, in exporting our manufactured goods in a fair way, or—we are infringing on some international rule—but in fact we are acting quite in accordance with the agreed international rule of trade.

Similarly our exports against the general gross national product—that's the normal criterion—is only 11 percent. Only 11 percent of our GNP is being exported, whereas the percentage in Europe—Germany, the United Kingdom, and so on—is far more than 20 percent. We are, indeed, the smallest exporter as far as the rate fo export against GNP is concerned.

The United States is exporting, I think, about 8 percent of your GNP, but because your GNP is twice as large as Japan's, you export much more than Japan, you see. This is a situation which was created by God, by nature; you cannot change it in any way by human labor. That is the situation we are placed in.

Representative RICHMOND. The way to change it, Mr. Ambassador, is to start exporting Japanese capital and start exporting Japanese engineers and Japanese technicians. You have to realize that Japan has gotten far too small for its productive capacity. What you really ought to do is start exporting people and money to other countries.

Mr. USHIBA. Last year, Japan was the biggest investor in the United States—bigger than, say, the United Kingdom or Germany.

Representative RICHMOND. For this 1 year.

Mr. USHIBA. Japan was the biggest investor in this country, and our technicians and engineers are all over the world, you see. They are helping developing countries, helping them build up their economies. Also more recently to help their economies in the strategic sense—for instance, in countries like Turkey, Pakistan, Thailand, or Egypt. They are getting more and more Japanese technology and Japanese engineers to help build their economies, which will certainly contribute to peace and security in those regions.

We are not at all resisting anything to go out of our country.

Mr. PATRICK. I think your point is very important about American investment in Japan as well, if I understood the gist of your question. I agree that this is an important issue because trade and investment are linked and because there are investment opportunities in Japan.

We were concerned about this issue as one of the issues that we studied. Frankly, I was somewhat influenced by the careful study done by the American Chamber of Commerce in Japan on investment issues in Japan. They surveyed and analyzed a number of the issues and recent changes in policy. Our meetings with those American business representatives were very useful, because they were the people on the scene, the Americans on the scene—the front lines, as it were.

They said there were a number of issues. Most of them could be dealt with. They felt the problem, in part, was that their head offices did not understand sufficiently the opportunities for investment in Japan, the need for a 5-year time horizon, and the profitability of such investment. If American companies entered the Japanese market with care and with intelligence and did not expect a quick fix or some easy way, it was not easy but it was profitable and it was doable. I thought that that was a very useful insight that we received from them.

Certainly, in our recommendations, we stressed the view that American companies in Japan should be treated fairly according to domestic conditions; the same, of course, for Japanese companies investing in the United States. And we argued the case for equal national treatment. That is to say, an American company in Japan should be treated just like a Japanese company in Japan in terms of, say, government support for R. & D. or other kinds of activities. And similarly in the United States.

Representative RICHMOND. Exactly.

Mr. PATRICK. So I think this is an important——

Representative RICHMOND. Mr. Ambassador, you know that's precisely how we would treat a Japanese company in the United States. We don't discriminate in any way, shape, form, or manner against any foreign company that comes into the United States. It seems again, we deserve the same treatment in Japan, which certainly the American businessman doesn't get.

Mr. INGERSOLL. In most cases, the study that the American Chamber of Commerce in Japan made, they found that the return on investment of American companies in Japan was greater than the average of the Japanese companies and greater than the investment that American companies had made in other countries. So those that have gone in have made a very good investment.

But as Mr. Patrick points out, it is the long haul that's required in Japan. It takes a much longer term investment in marketing strategy, in really breaking into the market and making the investment during those years when there are losses that have enabled these companies to get the position that they have now. New companies coming in will take a long time because it's a highly competitive market. The Japanese compete as intensively within their country as they do outside, so that anybody coming in there is going to have to operate in that same milieu.

Representative RICHMOND. That's why I've been urging the Japanese to come over to the United States.

Mr. INGERSOLL. Well, they are. As a matter of fact, one Japanese automobile manufacturer said that he'd seen more American Governors than perhaps we'd seen in the United States, those who were trying to get plants in their States.

Representative RICHMOND. I think many of the trade tensions we have between Japan and the United States is because of the Japanese imports of just a few major products from us.

Mr. INGERSOLL. They're quite visible; yes.

Representative RICHMOND. They're very visible. They're very select.

Coincidentally, the products they import from us are always the lowest priced products of that type in the entire world.

Mr. INGERSOLL. Our aircraft are high priced. They're the best in the world. And they're importing our aircraft.

Representative RICHMOND. Right now they're planning to produce their own aircraft.

Mr. Ambassador, I can see that if something doesn't happen by 1990, this trade deficit will be up to $30 billion a year, not $10 billion, because as you know, the Japanese are doing everything possible to cut their imports from the United States, down to basic nonrenewable natural resources. They plan to create their own commercial airplanes.

Every manufactured object they are now importing from us, they have plans to manufacture themselves in Japan. The only thing they need us for is $3.50 corn, $4.05 wheat, $7 soybeans. These are the cheapest prices in the world, and these prices have been the same for the last 10 years.

Mr. INGERSOLL. Well, I remember, whan I was in Japan, soybeans went up to $12 a bushel, and we put an embargo on them at that time. And that's one of the things the Japanese remember when they worry about our adequacy of supply.

Representative RICHMOND. The price of soybeans in the United States in the last few years has averaged between $6 and $7.

Mr. PATRICK. I think in the matter of aircraft it is very unlikely, frankly, that the Japanese industry is ever going to become very successful. This is my own projection of that particular industry, despite Japanese Government policy. Essentially market competition will determine what we sell abroad and to whom. It will be Japanese market competition that determines what they produce and also what they buy and what they sell.

Of course they buy things from us, because we have the best prices in the world. That's what competition is about. But, of course, we buy things from Japan because they have the best prices in the world; otherwise, we would buy them somewhere else.

Representative RICHMOND. That's the problem, Mr. Patrick.

Mr. PATRICK. You think we buy things from Japan more expensively than we would from somewhere else?

Representative RICHMOND. The American people have been saturated with the concept that Japanese goods are better designed and of better quality than American goods. Therefore, many people are buying Japanese goods and paying higher prices for them. I think it's something that the American people ought to understand. It really doesn't help our economy particularly.

Take your Nippon Telegraph & Telephone agreement that's in the air now. Do you think that one will actually eventually go to American companies?

Mr. INGERSOLL. It already has in one minor case. Motorola Co. was able to sell a beeper to them, where doctors or anyone else who needs a communication system can tie into the Japanese telephone system. Motorola had the product, they had the price, and they've been able to sell that in Japan. It's just a minor one to start with.

Representative RICHMOND. The kind we Members of Congress carry around.

Mr. INGERSOLL. I should have included you with the doctors, but that's just one example.

The market now has been cracked open slightly. And we're very anxious to see how the American companies will be able to compete. You know, there have only been four Japanese companies who have been permitted to compete in that market as well. So the other Japanese companies have been eliminated. We've cracked that market, even for the Japanese. And we think that it's going to benefit the Nippon Telephone & Telegraph. We certainly think it's going to give our companies an opportunity to supply products to them.

Representative RICHMOND. You think this Nippon Telegraph contract could eventually come to a few billion dollars? There's a rumor that it's worth $3 billion. Is there any possibility of getting that business?

Mr. INGERSOLL. I wouldn't expect $3 billion for some years. In any one of those highly technical businesses it takes research and development cooperation between the supplier and the customer for many years before they will approve a product to go into production.

So, I would say that it's going to come gradually. But I think eventually it could be that much, because we have a very high technology in this area, and we think we have an advantage.

Mr. PATRICK. Certainly in the area of government procurement it is an important issue, because it is a real trade barrier. I think the NTT case is a good example of that in Japan.

Clearly, this is an area in which there has to be ongoing diplomatic negotiations and pressure and mutual concessions, under the new code of conduct on government procurement, and an expansion of its range of coverage. Certainly this should be part of our negotiating stance with Japan and with other countries to open up government procurement, which is one of the remaining areas in which trade is not free. We do have to not only monitor the results of cracking this, but if it is not really cracked we have to continue to keep the pressure on to see that it opens up. That is an important point, presumably one that our trade negotiators will be involved in.

Representative RICHMOND. A number of people have recommended that we open a top level office to help solve some of these bilateral trade investment disputes. Do you think such an office would work in Japan? Do you think it's necessary? Or do we have enough offices as it is?

Mr. INGERSOLL. You mean an American office or a Japanese office?

Representative RICHMOND. I think it would be bilateral.

Mr. INGERSOLL. We recommended to the Japanese Government that the Prime Minister establish in his office an ombudsman that could oversee any restrictions that might be impeding imports into Japan from foreign countries, particularly the United States. We do not know whether the Japanese Government will agree to that recommendation. We do find that the American Government says that we don't see the need for it at the present time, because we have the Trade Facilitation Committee, which has been available for 2 or 3 years. And the cases brought before that group have declined to almost nothing in the past 9 months.

There also is the Trade Study Group in Japan, which involves American business, Japanese ministries, and specialists that will study cases that are brought to them and even those that aren't brought to them—they initiate the studies of where there may be restrictions in the Japanese market. They have been quite successful, for instance, in providing electrical inspection in the United States for appliances going from the United States to Japan.

We had previously put our Underwriters Laboratory inspections on Japanese appliances coming to the United States. So they reciprocated. I think they've reciprocated and eliminated some of the inspections on automobiles, but there are still more to go.

This kind of group I think, with its continuing effort, we recommended that both governments give this group support, because it's primarily done voluntarily by American businessmen that have many other things to do themselves. We hope this group will be given support so that they can ferret out any of these problems that do exist.

Mr. USHIBA. Your Embassy in Tokyo is doing a very good job. Of course, Mr. Ingersoll was one of the best Ambassadors you have sent to Japan.

But now Senator Mike Mansfield is the Ambassador, and the staff—they are all excellent people. We are really having very good relations with them, and a lot of questions are being solved between your Embassy and the ministries.

Representative RICHMOND. Except the Secretary of Commerce testified before you, Ambassador, that the Japanese have many, many more times the commercial attachés here in the United States than we have in Japan.

Mr. INGERSOLL. I think that may be true.

Mr. PATRICK. I think that is a real problem for the United States, frankly. We do not have an adequately staffed commercial attaché base abroad; we do not have in the American Government an adequate number of specialists on Japan. There are a number of areas in which we have to be more outward looking, even as we are focusing on Japan today. It is true for other countries as well. But as you said, Japan is our largest oversea trading partner. We ought to know an awful lot more about Japan than we do. I am very glad that these hearings are being held and that there will be other studies. And I hope that our report will be of some use in trying to improve knowledge and understanding.

But I think realistically the American Government has to commit its human resources far more to training people who will be in government service who know a great deal about Japan, in order to improve our ability to deal with Japan.

Representative RICHMOND. Also, the Japanese Government has to somewhat change its attitude toward its trading partner, don't you think, Professor Patrick? There are quotas, there are tariffs, there are artificial barriers, and there are regulations.

Mr. PATRICK. I would like to see all governments doing that. And I certainly would like to see the Japanese Government doing that.

Representative RICHMOND. We certainly have about as open a trade as any country in the world; don't we?

Mr. PATRICK. Yes, I think that is certainly true. A recent study indicated that 43 percent of the U.S. imports from Japan—exports to the United States from Japan—come under some kind of trade restriction. That is a shocking fact. However, even though it is a fact, that does not mean that we are necessarily very far from free trade.

It does mean that a lot of our trade with Japan, our imports from Japan, do come under some kind of American restrictions, notably steel and automobiles and textiles. I do not think the restrictions on automobiles, for example, are that severe. It is not so far from the free trade situation. However, the items under quantitative restriction do add up to 43 percent.

Representative RICHMOND. Mr. Patrick, the restrictions on automobiles, as you know, are not that severe. The restrictions on textiles are relatively nonexistent, because Japan really can't compete in the American textile market. Japan itself is importing textiles from other Far Eastern countries, so we don't have any great problem on textiles either.

I believe the restrictions are the other way. The fact that Americans have so many restrictions that they can't do business in Japan, everything from the Japanese not wanting our vegetables because they say they don't want our aphids—they say they have enough of their own aphids on their vegetables—but they think of reasons for everything, on why not to buy our products.

In your report, I know you were in Japan to develop and articulate a new and more active international role. What do you have in mind there?

Mr. USHIBA. We are now the second largest economy in the world, so we must play our important role in sharing the global responsibility, commensurate with our position in the world.

Representative RICHMOND. Mr. Ambassador, how do you feel about the fact that America pays the bulk of Japan's defense bill?

Mr. USHIBA. We've been very short on this so far; I admit that. This is an urgent task we must face. The Prime Minister has talked with your President on the whole general issue. We have said quite definitely that we will be trying more in the field of security.

But you know, to our minds, the component of security is somewhat different from your idea of security. In your case, of course, military defense is predominantly a bigger part of security. But in our case, military power cannot be a very great part—partly because of constraints through the constitution; partly, also, because of public opinion of the Japanese people.

We have not yet advanced to the stage where very substantia increases of the defense expenditure can be accepted by people really easily. It's a fact, and we cannot really change it by force. So, we are asking you to take this into consideration.

Representative RICHMOND. We're making no progress, Mr. Ambassador. Your Government refuses to increase its defense expenditures, and it's still below 1 percent of your gross national product, as against ours, which are 6 percent of our gross national product.

Mr. USHIBA. I don't think we have refused to increase our defense expenditure. Of course, the limit is still there, as far as I understand. But I'm not in the government, so I cannot say anything definitely there.

We are ready to increase, but not in a very substantial way, as you expressed. In the long run, we may be able to do more useful work in the field of economic cooperation, for instance, in assisting the developing countries and in assisting fair international trade laws and those kind of things. But, of course, we know that at this time the most urgent thing is to do more in the sphere of defense as part of security. That is very well known to our Government.

Representative RICHMOND. Either more yourself, or help subsidize some of our gigantic defense costs. Just to put 1 percent more of your gross national product, it would come to roughly $15 billion. Now, $15 billion for defense, plus if you would close your deficit balance of trade with us for another $10 billion, is roughly half of our national deficit in our whole government.

Mr. USHIBA. I know that there is some imbalance.

Representative RICHMOND. Basically half the deficit in the United States is due to our relations with Japan.

Mr. USHIBA. In connection with defense expenditure, I don't think that is right. Of course, I recognize that we must do more in defense, partly because of the trade imbalance. That kind of political program, we cannot really touch, you see; we know that.

Mr. INGERSOLL. In fact, in our report, Mr. Richmond—and I again stress that this was agreed to by both sides—we urged the Japanese Government to first determine what its defense role is. I think when the Prime Minister was here he expanded Japan's role from what it had been conceived of in the past. In other words, he said that Japan should protect the sea lanes up to 1,000 miles from Japan. That's the first time I think that's been said by a Japanese official.

Then, once they have made that determination, it's up to them to determine how much should be spent to carry out that plan.

Our report also recommended, as Mr. Ushiba has already suggested, that Japan should substantially expand its economic aid to countries, particularly less developed countries, because we think that economic stability in many cases brings political stability, and therefore a lesser need for military security.

We also urge Japan to take on a larger share of the cost of maintaining American troops in Japan, so that this particular group, including Ambassador Ushiba and other members of our group, are very much on record of doing just what you say.

Representative RICHMOND. I thank you all for coming. I'm looking forward to reading your entire report with the greatest of interest. I know it's a most worthwhile report. And I'm really grateful that you were able to fit us in on late Friday afternoon.

Mr. INGERSOLL. We appreciate very much the chance to discuss this subject. It's very much on our mind, and we're glad for this opportunity.

Representative RICHMOND. We'd like to keep the record open for 10 days and submit additional written questions.

The record will show that we plan to submit additional written questions to the Secretary of Commerce.

The subcommittee will recess now until July 9 at 10 a.m.

Our witness on July 9 will be Ambassador Brock, the President's special trade representative.

Thank you, and good afternoon.

[Whereupon, at 4:55 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, July 9, 1981.]

[The following questions and answers were subsequently supplied for the record:]

RESPONSE OF HON. MALCOLM BALDRIGE TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE RICHMOND

Question 1. The Tokyo Round of Trade Negotiations will result in a sharp reduction of tariffs and quotas on articles currently in production. Will it also affect tariffs on new products?

Answer. Tariffs that are potentially applicable to products of the future are given special attention when we negotiate tariff agreements, either bilaterally or multilaterally. U.S. trade negotiators sought detailed advice from the private sector in advance of participating in the MTN negotiations to obtain information on new products and how these products would likely be treated under our trading partners tariff schedules. We rely, in particular, on the Industry Sector Advisory Committees sponsored jointly by USTR and the Commerce Department for this type of guidance. The input we received was used in the negotiations, and the agreements we reached certainly apply to the large majority of products that U.S. manufacturers identified as key products of the future. We also are taking into account future products indirectly when tariff negotiations are conducted on the basis of a general tariff reduction formula, in lieu of an item-by-item approach. A formula approach was used in the MTN (Tokyo Round) and in the Kennedy Round negotiations. The formula approach results in tariff agreements that give exporting countries a more secure right to concessionary treatment for new products, because the exporting country has not had to identify specific classes of products for which concessions are sought.

Question 2. In your statement for the record you refer to the Japanese "syndrome of preferring to buy domestic goods and avoiding imports where possible" and to the need for a "change in attitudes." How can we alter that syndrome and change those attitudes?

Answer. The Japanese Government has acted to remove most of the official barriers to imports. The attitudes to which I refer are in the private sector, but changing these private sector attitudes will require a substantial effort on the part of the Japanese Government.

The Japanese Government recognizes the need for a more open attitude toward imports on the part of the private sector. It has been very cooperative in efforts to open wide the Japanese market. These efforts include Japanese participation in the Trade Facilitation Committee; the use of JETRO to promote U.S. exports to Japan; and the creation of the Manufactures Imports Promotion Organization (MIPRO).

I am particularly pleased by recent statements by my counterpart, MITI Minister Tanaka, which indicate an increasing recognition of the need for further actions to increase accessibility.

Another example of the Japanese Government's responsible attitude toward trade is the export restraint exercised on automobiles to the United States, Canada, Belgium and Germany. This is a commendable example of responsible government actions which alleviated an extremely sensitive trade problem.

Nevertheless, Japanese private sector biases against imports remain strong. We look forward to the continued cooperation of the Japanese Government to help overcome this problem. Through our Trade Facilitation Committee mechanism, for example, we and the Japanese have agreed to pursue such private-sector barriers. We plan to use this instrument to the fullest in ensuring equitable market access for competitive U.S. exports.

The key word here is competitive. The U.S. export community also has a role to play in eradicating instances of poor after-sales service, slow delivery and disinterest in customer preferences which have, in part, contributed to some Japanese biases against imports.

Question 3. As a result of President Reagan's recent meeting with President Lopez Portillo of Mexico, a special Cabinet level committee has been established to iron out bilateral trade disputes between the two countries.

How will this new group fit into the existing maze of the Trade Policy Committee and the Cabinet Council on Commerce and Trade? What role will the State Department play in the new Cabinet level committee?

Answer. On June 23, Ambassador Brock and Secretary Baldrige for the United States, and Secretary of Commerce de la Vega for Mexico signed an agreement establishing the Mexico-U.S. Joint Commission on Commerce and Trade. Ambassador Brock and the Secretary will be co-chairmen of the U.S. delegation Secretary de la Vega will be chairman of the Mexican delegation.

The Commission will be more than a consultative body. We intend to use the Commission to develop solutions to our most difficult bilateral trade problems.

To be effective, the U.S. delegation will need to be representative of the agencies which participate in the work of the Trade Policy Committee. Accordingly, positions will be developed with the advice and counsel of the Department of State, and of the other agencies represented on both the Trade Policy Committee and the Cabinet Council on Commerce and Trade.

Question 4. In setting out the objectives for U.S. policy you include a substantial liberalization of Japanese barriers to U.S. investment in high technology industries. How can we go about it? What remedies exist under American law against investment barriers? Is new legislation needed?

Answer. The Government of Japan recently implemented a new Foreign Exchange and Foreign Control Law which substantially liberalizes its policy toward inward investment. The new law removes most of the formal restrictions affecting U.S. investment in Japan, although the Government of Japan retains considerable authority to alter or block foreign investments which are deemed to have "significant adverse effects" on national security, the national orders the economy, or on domestic industry. Investment in high technology industrie, may fall within one of these categories.

The Department is engaged in efforts to ascertain the specific problems U.S. investors encounter in Japan under the new law in high technology as well as other sectors. We plan to establish a mechanism to focus on the reduction of barriers to U.S. investment there.

There are virtually no U.S. laws which address the problem of foreign investment barriers. Two of our primary remedies lie in international organizations such as the GATT (in the case of trade related injuries resulting from investment restrictions) and the OECD. The Administration is conducting a review of U.S. policy toward inward and outward investment, including such legislative proposals as reciprocity. We will be in a better position to determine our legislative needs after completion of this review.

Question 5. Could you give us some idea of how much lower our trade deficit would be with Japan if the Japanese market was completely open to our exports and to American investment?

How much difference would it make if we started to process our raw materials before exporting them the way many resource rich countries do?

Answer. The closed nature of the Japanese market for manufactures is a serious problem. Japan has dismantled most of its official barriers to imports of manufactures to a low level. Though Japan is the free world's second largest economy, it ranks only ninth in imports of manufactures—barely ahead of Switzerland. Viewed another way, Japan imports $230 of manufactures per person, compared to $570 per person in the United States.

If the Japanese market were fully open, we would be exporting substantially more. For example, if the Japanese per capita import figure were the same as ours, and if we kept our present share of Japanese manufactures imports, we would have exported $21 billion of manufactures to Japan last year instead of $8.6 billion. It is difficult to say what effect this would have on the U.S. trade deficit with Japan. If Japan is to increase its imports of manufactures substantially, it will need to increase its exports as well. However, given some determined U.S. efforts to become more competitive, I believe the end result would be a substantial elimination of our deficit with Japan.

Your question correctly identifies two major reasons why we have not been able to export more: restrictions on U.S. investments in Japan, and a Japanese propensity to import at the lowest level of value-added.

Research shows that U.S. overseas investment has a substantial "pull-through" effect on U.S. exports, and increased U.S. investments in Japan certainly would have a notable effect on our export position. We are hopeful that the application of the new Japanese law on foreign investment will result in substantial increases in U.S. investment in Japan.

A change in the Japanese propensity to import raw materials and goods at low stages of processing would also have a large effect. For example, the value per pound of copper alloys exported to Japan was over 5 times the value per pound of copper ores and concentrates; but measured by total value, Japan bought nearly 9 times more copper ore than copper alloys from us last year. The unit value of cotton fabric exports to Japan was nearly 4 times greater than the unit value of cotton exports. We shipped $526 million of cotton to Japan, but only $8 million of cotton fabric in 1980.

Question 6. What percentage of Japanese GNP is devoted to investment in plant and equipment?

Answer. Over the past decade, investment in plant and equipment has averaged about 15 percent of GNP. In 1980, Japan invested 37 trillion yen in plant and equipment (about $163 billion), which was 15.7 percent of Japanese GNP. The Japanese ratio is substantially larger than the proportion of U.S. GNP devoted to plant and equipment. In 1980, such U.S. investment was 11 percent of U.S. GNP, about what we have been averaging for the past decade. Thus, the Japanese ratio is more than 40 percent larger than the U.S. ratio. Over time, this makes a substantial difference in terms of the quantity and quality of new plant and equipment.

Question 7. In your statement for the record, you note that the Japanese personal savings rate is roughly four times that in the United States. What accounts for the difference in savings rates?

Answer. The Japanese tax system offers powerful incentives for savers. Without incurring any tax liability on earned interest, an individual may maintain over $61,000 (conversion rate: 227 yen to US$1) in various savings accounts or instruments—small savings accounts ($13,000); postal savings accounts ($13,000); central and local government bonds ($13,000); and savings withheld from employee salaries ($22,000).

In addition, the relatively high rate of personal savings in Japan is in large part necessitated by the lower level of support provided by Japanese social systems—especially in such areas as medical insurance and retirement pensions—compared with U.S. programs.

A recent examination of comparative motivation of U.S. and Japanese savers shows that saving objectives which are relatively more important for Japanese households—medical emergencies, retirement, real estate and housing—are those which in themselves generate a higher savings rate at the macro level.

Moreover, certain structural features of the Japanese economy and society—including lower availability of consumer credit; the rapid recent rise (11 to 12 percent per annum) in nominal disposable income (making past savings diminish relative to current income); the smaller proportion of persons over 65 (with lower savings ratios) in the overall population; and the Japanese practice of paying twice-yearly lump sum bonuses—also contribute to the relatively higher savings rate in Japan.

Question 8. In meeting the Japanese challenge to our technological superiority, will we have to adopt tax, spending and trade policies that will offset the selective targeting of Japan's industrial strategy?

Answer. We must meet the Japanese technological challenge, but we must do so in the way best suited to our own economic and political system. Our system is quite different from Japan's, and it is unlikely that the selective targeting approach of Japan would work well here. Our approach must be one which is consistent with our free market philosophies and our reliance on the private sector.

U.S. industry has been investing too little and has been devoting too little to research and development, but the reason for this is that U.S. public policy has favored consumption at the expense of investment. This is what we must change, and this is the intent of the Administration's Economic Recovery Program. Fiscal and monetary restraint, coupled with accelerated depreciation provisions and with R. & D. incentives, will channel more resources into investment and innovation and will free the competitive genius of U.S. industry. Full enactment of the Administration's program will enable U.S. industry to compete and would make Japanese style targeting unnecessary.

Question 9. In your statement for the record you say that the U.S. must make "the fullest use" of existing laws against illegal trade practices. Does that mean we can expect self-initiated Section 301 cases and a willingness to retaliate by partially closing the American market?

Answer. The Administration is committed to ensuring that U.S. industrial and agricultural interests be allowed to exercise fully their rights in the international trading system, especially those rights accruing under the agreements reached in the recently-concluded Multilateral Trade Negotiations. The U.S. Government will utilize all available legal measures in this effort, including, but not limited to, the vigorous pursuit of cases filed under Section 301 and, if appropriate, self-initiation of 301 cases. The U.S. Government prefers, as always, to resolve trade disputes through negotiated resolutions, with or without the aid of domestic and international legal procedures. A negotiated resolution directly addresses, and usually solves, the issue at hand; retaliatory action does neither. In addition, retaliatory action is almost never without some adverse domestic impact. Therefore, while the Administration will use its Section 301 retaliation authority if it is necessary and appropriate, it is not a generally preferred response to a foreign unfair practice.

Question 10. What "measures designed to stimulate the development of high technology industries" would violate U.S. law or international agreements? What remedies exist under U.S. laws? How should those laws be strengthened?

Answer. Many types of measures are prohibited or limited by the General Agreement on Tariffs and Trade (GATT) and the several Multilateral Trade Negotiations (MTN) agreements. The principal agreement likely to come into play in this instance is the MTN Agreement on Subsidies and Countervailing Measures. The Subsidies Agreement outlaws the use of export subsidies by developed countries, including Japan. An illustrative list of export subsidies is attached. Other types of subsidies, such as general production subsidies or research and development assistance, are *not* prohibited by the Subsidies Agreement. Available recourse under the Agreement includes countervailing duties (if injury results from subsidized imports) and other unspecified forms of retaliation (if we can establish that the subsidies seriously prejudice our trade).

U.S. legislation provides for contervailing duties against subsidized imports following investigations by the Department of Commerce and the International Trade Commission. Formal access to the remedies under the Subsidies Agreement is available through Section 301, as amended, of the Trade Act of 1974, which provides a channel to petition for enforcement of U.S. rights under trade agreements. Petitions are filed with the Office of the U.S. Trade Representative.

The MTN Subsidies Agreement is fairly new, coming into effect last year, and much of it is still untried. Because of this, we are very carefully monitoring implementation of the Agreement, seeking to ensure the greatest benefits for the United States.

ILLUSTRATIVE LIST OF EXPORT SUBSIDIES

(*a*) The provision by governments of direct subsidies to a firm or an industry contingent upon export performance.

(*b*) Currency retention schemes or any similar practices which involve a bonus on exports.

(*c*) Internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favourable than for domestic shipments.

(*d*) The delivery by governments or their agencies of imported or domestic products or services for use in the production of exported goods, on terms or conditions more favourable than for delivery of like or directly competitive products or services for use in the production of goods for domestic consumption, if (in the case of products) such terms or conditions are more favourable than those commercially available on world narkets to their exporters.

(*e*) The full or partial exemption, remission, or deferral specifically related to exports, of direct taxes [1] or social welfare charges paid or payable by industrial or commercial enterprises.[2]

(*f*) The allowance of special deductions directly related to exports or export performance, over and above those granted in respect to production for domestic consumption, in the calculation of the base on which direct taxes are charged.

(*g*) The exemption of remission in respect of the production and distribution of exported products, of indirect taxes [1] in excess of those levied in respect of the production and distribution of like products when sold for domestic consumption.

(*h*) The exemption, remission or deferral of prior stage cumulative indirect taxes [1] on goods or services used in the production of exported products in excess of the exemption, remission or deferral of like prior stage cumulative indirect taxes on goods or services used in the production of like products when sold for domestic consumption; provided however, that prior stage cumulative indirect taxes may be exempted, remitted or deferred on exported products even when not exempted, remitted or deferred on like products when sold for domestic consumption, if the prior stage cumulative indirect taxes are levied on goods that are physically incorporated (making normal allowance for waste) in the exported product.[3]

(*i*) The remission or drawback of import charges [1] in excess of those levied on imported goods that are physically incorporated (making normal allowance for waste) in the exported product; provided, however, that in particular cases a firm may use a quanity of home market goods equal to, and having the same quality and characteristics as, the imported goods as a substitute for them in order to benefit from this provision if the import and the corresponding export operations both occur within a reasonable time period, normally not to exceed two years.

(*j*) The provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programmes, of insurance or guarantee programmes against increases in the costs of exported products [4] or of exchange risk programmes, at premium rates, which are manifestly inadequate to cover the long-term operating costs and losses of the programmes.[5]

---

[1] For the purpose of this Agreement:

The term "direct taxes" shall mean taxes on wages, profits, interest, rents, royalties, and all other forms of income, and taxes on the ownership of real property;

The term "import charges" shall mean tariffs, duties, and other fiscal charges not elsewhere enumerated in this note that are levied on imports;

The term "indirect taxes" shall mean sales, excise, turnover, value added, franchise, stamp, transfer, inventory and equipment taxes, border taxes and all taxes other than direct taxes and import charges;

"Prior stage" indirect taxes are those levied on goods or services used directly or indirectly in making the product;

"Cumulative" indirect taxes are multi-staged taxes levied where there is no mechanism for subsequent crediting of the tax if the goods or services subject to tax at one stage of production are used in a succeeding stage of production;

"Remission" of taxes includes the refund or rebate of taxes.

[2] The signatories recognize that deferral need not amount to an export subsidy where, for example, appropriate interest charges are collected. The signatories further recognize that nothing in this text prejudges the disposition by the CONTRACTING PARTIES of the specific issues raised in GATT document L/4422.

The signatories reaffirm the principle that prices for goods in transactions between exporting enterprises and foreign buyers under their or under the same control should for tax purposes be the prices which would be charged between independent enterprises acting at arm's length. Any signatory may draw the attention of another signatory to administrative or other practices which may contravene this principle and which result in a significant saving of direct taxes in export transactions. In such circumstances the signatories shall normally attempt to resolve their differences using the facilities of existing bilateral tax treaties or other specific international mechanisms, without prejudice to the rights and obligations of signatories under the General Agreement, including the right of consultation created in the preceding sentence.

Paragraph (*e*) is not intended to limit a signatory from taking measures to avoid the double taxation of foreign source income earned by its enterprises or the enterprises of another signatory.

Where measures incompatible with the provisions of paragraph (*e*) exist, and where major

(k) The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of export credits at rates below those which they actually have to pay for the funds so employed (or would have to pay if they borrowed on international capital markets in order to obtain funds of the same maturity and denominated in the same currency as the export credit), or the payment by them of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms.

Provided, however, that if a signatory is a party to an international undertaking on official export credits to which at least twelve original signatories [6] to this Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original signatories), or if in practice a signatory applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.

(*l*) Any other charge on the public account constituting an export subsidy in the sense of Article XVI of the General Agreement.

---

practical difficulties stand in the way of the signatory concerned bringing such measures promptly into conformity with the Agreement, the signatory concerned shall, without prejudice to the rights of other signatories under the General Agreement or this Agreement, examine methods of bringing these measures into conformity within a reasonable period of time.

In this connexion the European Economic Community has declared that Ireland intends to withdraw by 1 January 1981 its system of preferential tax measures related to exports, provided for under the Corporation Tax Act of 1976, whilst continuing nevertheless to honour legally binding commitments entered into during the lifetime of this system.

[3] Paragraph (*h*) does not apply to value-added tax systems and border-tax adjustment in lieu thereof; the problem of the excessive remission of value-added taxes is exclusively covered by paragraph (*g*).

[4] The signatories agree that nothing in this paragraph shall prejudge or influence the deliberations of the panel established by the GATT Council on 6 June 1978 (C/M/126).

[5] In evaluating the long-term adequacy of premium rates, costs and losses of insurance programmes, in principle only such contracts shall be taken into account that were concluded after the date of entry into force of this Agreement.

[6] An original signatory to this Agreement shall mean any signatory which adheres *ad referendum* to the Agreement on or before 30 June 1979.

U.S.-JAPANESE ECONOMIC RELATIONS

THURSDAY, JULY 9, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
FINANCE, AND SECURITY ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Frederick W. Richmond (member of the subcommittee) presiding.

Present: Representative Richmond.

Also present: James K. Galbraith, executive director; and William R. Buechner, Kent H. Hughes, and Keith B. Keener, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE RICHMOND, PRESIDING

Representative RICHMOND. Good morning, ladies and gentlemen. This is a session of the Joint Economic Committee, Subcommittee on International Trade, Finance, and Security Economics. When I opened these hearings 2 weeks ago, I outlined two specific purposes: The first, to bring to the American people all the facts about our economic and military relations with Japan; second, to explore realistic proposals for bringing these relations into an equality that reflects the strength and maturity of both countries.

I also stated that we could produce benefits for both the American people and the Japanese consumer if this country took appropriate steps to unlock the Japanese market for American trade.

Secretary of Commerce Malcolm Baldrige agreed with the views that I expressed and particularly, he agreed that the restrictions on American agricultural imports to Japan put an unnecessary burden on the Japanese consumer because these restrictions lead to ridiculously high food prices in Japan, besides contributing to our $10 billion unfavorable balance of trade with Japan, which seems to be growing every year.

Secretary Baldrige also made the following comment with regard to our industrial trade with Japan:

> Our thrust, besides the agricultural area that you and I agree on, should be also in opening up their markets that they have protected in the past. The Japanese don't even compete with each other in their home market in the same sense that we know competition, you know, head to head competition with price cutting and everything that develops when people have equality and equally competitive products. If those markets were opened up all the way, you'd start to see that change in Japan, too, because some of our good companies would be over there knocking on everybody's door. That would create a change in the whole Japanese-American trade market structure.

Let me put a little bit of flesh on the abstract bones of that statement in the form of a concrete example. This one is drawn from the

85-821 O - 82 - 5

Department of Commerce files of how the Japanese act to restrict our trade.

An American manufacturer began to export electric griddles to Japan in 1974. He sold 6,000 units during the first year. In the next year, the Japanese established new standards for controlled temperatures on electric griddles. That standard was set at 2° C. below the capability of the American appliance, 2° C. By the time the American firm was able to comply, the market had been saturated with 2 million units, most of which were made in Japan.

I can give example after example of that kind of unfair, restrictive practice on the part of Japan, but we all know these kinds of stories. I want to know what our Government is prepared to do about this and when we'll see some substantial change in the Japanese attitude toward our products, both agricultural and industrial.

The Japanese don't seem to behave the same way toward all of their trade partners, at least not to the point where these other partners suffer continuous and large trade deficits. Australia and Canada each have a $5 billion positive trade with Japan. So Australia and Canada have a positive trade with Japan and we have a negative balance.

It also seems that our products are desirable and competitive on the world market. The chart over here tells the story of the last 5 years of American high technology trade with our two important trade partners—the European Economic Community and Japan.

Well, the European Economic Community has suddenly increased its imports of these products from us to the point where in 1981, we had a favorable balance of trade with the EEC of $15.5 billion. Meanwhile, the Japanese have continued to tighten the screws in our high technology products to the point where we have a negative balance of trade of nearly $6 billion.

This chart and the specific trade example I gave a moment ago represent the real problems of our trade with Japan. Behind each example and each line on the chart sit the serious problems of our domestic economy. In particular, jobs, jobs, jobs. Everything, in my opinion—the major problems in the United States can all be traced back to unemployment.

Today, we are privileged to have with us Ambassador William Brock, our U.S. Trade Representative. Just yesterday, in testimony before another committee, Ambassador Brock outlined the administration's statement on U.S. trade policy. I read that statement carefully and am happy to say that it seems to be a great general step in the right direction, Ambassador.

However, I'm not certain from the statement just how the administration plans to deal with some of the specific problems of the type that I have just raised. And since the statement makes no mention of Japan anywhere in its nine pages, I'm still not certain about how the administration intends to apply these general principles to our obvious and enduring trade problems with Japan, and I would welcome any enlightenment on that score.

I look forward to today's discussion with Ambassador Brock because it's certainly always a pleasure to hear his views and because I feel that anything we might be able to find out would help us in redressing this miserable imbalance we have with our supposed second largest trading partner, the Japanese Government.

I would also like to thank Kent Hughes, our staff director of the Subcommittee on International Trade, Finance, and Security Economics, and Bill Buechner, who have done a wonderful job of research in preparing these hearings. And of course I'd like to thank my Chairman, Gillis Long, who is unable to be with us today, for all of his assistance in putting these hearings together.

Also, I would like to insert in the record the opening statement of Congressman Rousselot who is unable to attend because of conflicting schedules.

[The opening statement of Hon. John H. Rousselot follows:]

Opening Statement of Representative Rousselot

U.S. producers of high technology goods are willing to expand their markets, and increase employment and production in the United States. The barriers to trade imposed by the Commerce Department's export licensing policies need to be closely examined. The U.S. should not trade its most sophisticated weaponry and defense related hardware. New production and income could be provided if export licensing requirements are selectively relaxed as technological advance renders old production obsolete.

The April 1979 Multinational Trade Negotiations (MTN) package, approved by both Japan and the United States, makes great strides in opening world markets to exports. Japanese tariff barriers on electronic components are scheduled to fall 26 percent from 1979 levels by 1984. Furthermore, Japanese barriers on foreign process control equipment will be reduced by 20 percent, electronics manufacturing equipment barriers by 17 percent, and food processing and packaging equipment tariffs by 18 percent. Additional tariff reductions would further benefit Japanese consumers and American high-technology producers.

Your role as U.S. trade representative could be critical in encouraging the Japanese to shoulder a greater share of their defense costs and purchasing U.S. made, defense-related goods. Japan could enlarge its conventional military without violating its Constitutional restriction against "world-potential armed forces."

Amendments could be made to the U.S.-Japanese security treaty which would encourage Japanese responsibility in paying for Japan's defenses, and would provide an additional market for U.S. high-tech exports.

Free trade, whether it be for highly technological industries or not, best benefits the Nation by providing a competitive atmosphere in which production is encouraged at lowest cost. Your testimony, and outline of the Administration's trade position, is warmly received.

Representative Richmond. Mr. Ambassador, it's a pleasure to have you here.

STATEMENT OF HON. WILLIAM E. BROCK III, U.S. TRADE REPRESENTATIVE

Ambassador Brock. Thank you, Representative Richmond. It's nice to be back.

I am delighted to appear before the subcommittee as it considers the current state and future direction of economic relations between the United States and Japan. The topic is of vital importance. Our economic relationship with Japan affects the vitality of the international economic system, as well as the economic strength of Japan and the United States. Trade is the linchpin of this relationship.

It is the administration's goal to insure that United States-Japan trade flourishes under conditions of open and equal access to each other's markets.

Japan is the United States second largest export market, as you have noted, accounting for $20.8 billion in U.S. merchandise exports in 1980, 9.4 percent of our total exports.

Japan also is the second leading supplier of United States imports. In 1980, United States imports from Japan amounted to $30.7 billion, which represents almost 13 percent of total United States imports. Although many interest groups in the United States have complained that Japanese consumer products have contributed to a large bilateral trade imbalance and job displacement in several American manufacturing industries, we should remember that Japanese imports have helped to restrain inflation, have broadened consumer choice, and have provided the competitive thrust necessary to stimulate investment and product improvement by U.S. producers.

On the export side, we feel that the United States should do better, substantially better, in its export performance vis-a-vis Japan. Our trade policy aims to maximize market opportunities worldwide for the goods and services of a revitalized American economy. The first step in developing a workable trade strategy is to make a realistic assessment of the current situation.

Let me be blunt for a moment: The U.S. economy is far more open to foreign participation than is Japan's economy. Although the Government of Japan has undertaken significant liberalization as a result of the multilateral trade negotiations, important formal barriers to trade persist. High tariffs on individual items and quantitative restrictions on important agricultural items continue to impede imports. There are also numerous informal barriers to trade imbedded in Japan's economic and social institutions and policies.

Typically, the United States has had to exert substantial pressure on the Government of Japan to obtain even rather modest liberalization. Our hope for the future is to develop a more cooperative mode for achieving additional trade liberalization. The major trade issue with Japan that the administration faced on January 20, was the penetration of the American automobile market by Japanese imports. Japanese action to institute a 3-year program of export restraint represented a balance between Japan's own economic objectives and its concern with the economic and political climate in its most important market.

The auto issue indicated the necessity of liberalizing access to both countries' markets at an early stage of an industry's development. Great strains are placed on a trading relationship if one partner nurtures an industry behind protective walls while exploiting wide-open markets in foreign countries. We hope that the automobile situation will be an important turning point in our trade relations with Japan and that we can now engage in a dialog to achievee equivalent openness of our economies. This is the only course that makes sense for two huge, market-oriented economies.

The United States exports more agricultural products to Japan than it does to any other nation in the world. In 1980, we exported more than $6 billion worth of agricultural, goods to Japan. This represented 29.4 percent of our total exports to Japan and 15.3 percent of our total agricultural exports to the world.

For this reason, I firmly believe that Japan has the potential to become a much larger importer of U.S. farm products. As the subcommittee is well aware, Japan's import restrictions prevent U.S. exporters from taking full advantage of that potential demand. Citrus and beef are two very clear examples of such commodities.

The Reagan administration is committed to seeking liberalization of Japan's restriction on beef, citrus, and other agricultural products. Given our advantage and the impressive growth of our agricultural sector, we must look to expand our agricultural sales to Japan. The timely phaseout of Japan's quantitative restrictions is in the interest of Japanese consumers and Japan's overall economic growth, as well as in the interest of our farmers and our economy.

As in the case of food, a large share of crude materials in American exports to Japan reflects a pattern of comparative advantage between the two countries of such different natural resource bases. It is not consistent with comparative advantage, however, that the United States provides such a small proportion of its crude materials in more processed forms. This characteristic of our trade is due in large part to trade impediments in Japan or actions and attitudes on the part of Japanese industry that encourage imports of logs rather than lumber, hides rather than leather, tobacco rather than cigarettes, and on and on.

We have bilateral agreements or unilateral Japanese actions aimed at improving the balance of processed and crude material imports in all these categories. We will continue to monitor these situations to insure that de facto improvements in market access occur.

We're also working with U.S. processors to increase their ability to meet Japanese specifications, quality standards and product characteristics. Success in this area depends critically upon cooperation among the industries and trade officials in both countries.

High technology products, as you have mentioned, already are among our most important industrial exports to Japan. In 1980 Japanese imports from the United States included a billion dollars in aircraft and aircraft parts, $236 million in parts for data processing equipment, and $135 million in digital central processing units.

During his visit to Washington, Prime Minister Suzuki announced his support in principle for a mutual acceleration of United States and Japanese MTN tariff reductions on semiconductors. Such an action would reduce semiconductor tariffs in both countries to near 4.2 percent. Currently, we are working with the Government of Japan to complete the details of the semiconductor tariff reduction package. We hope that this step will mark the beginning of a broader mutual liberalization effort in the knowledge-intensive industries.

Export performance in high technology products in Japan appear to lie in a number of Japanese policies that may be described loosely as industrial policies. It is accurate to say that various elements in Japanese industrial policy have made an important positive contribution to Japan's international competitiveness in the high technology and capital goods fields.

Among the more successful policy instruments have been public sector procurement policies, joint government-industry research and development, and various financial arrangements that have provided substantial capital to selected industries on very favorable terms.

We cannot expect the Government of Japan to foreswear the use of these policy instruments. It is proper for us to insist, however, that the policies not be implemented in ways that create a bias in favor of exports as opposed to production for the domestic market, or in ways that effectively shut out foreign competition from Japan's own domestic market. In Japan, we have taken an important step in this direction by reaching an agreement on government procurement. I am pleased that the Government of Japan has been very forthcoming in its implementation of the code. It is still too early to predict what increases in U.S. sales will occur. Much depends on the efforts made by U.S. firms to sell in this new market, but we are optimistic that the prospects for sales of high technology American products are improving as a result of the steps that both governments are taking.

Another area that will be extremely important to both economies in the 1980's is services. Service industries currently account for approximately 70 percent of nonagricultural workers in the United States and two-thirds of our gross national product.

Many of our service industries are among the most competitive sectors of our economy and clearly, they are the most competitive in the world. Moreover, several service industries are complementary to high technology manufacturers. We must insure that the strong export potential of these industries is not frustrated by foreign impediments to trade. We're in the very preliminary stages of dealing with services trade with Japan. We have a long way to go to understand the systemic barriers in the Japanese economy. We need to develop effective multilateral and bilateral mechanisms for dealing with any services problems that are identified.

The topic of services trade with Japan is one which we will be given substantial attention to in the coming year.

Japanese product standards and the means by which such standards are established continue to create problems for U.S. exports. American producers do not enjoy the same access to Japanese standard-setting procedures as Japanese producers enjoy in the United States. This often leads to the development of standards that make it difficult or impossible for foreign producers to sell their products in the Japanese market. What we seek is a greater opportunity for foreigners to present their views on how Japan can meet its various goals with product standards that do not discriminate against foreign products. We also seek improved procedures to certify that American products comply with established Japanese standards through acceptance of test data generated in the United States or through Japanese recognition of the equivalence of U.S. standards.

I am pleased that substantial progress has been made in resolving individual standards issues and developing a bilateral mechanism for addressing such problems. As the Wisemen's report pointed out, however, we need to think increasingly of ways in which foreign economic concerns can be factored into Japanese standards settings at an early stage in the process.

Finally, I welcome this subcommittee's interest in our trade policy with Japan. To be effective, that policy must enjoy the support of the Congress and the American people. Through these sorts of consultations, we will be able to approach the Government of Japan with a clearly enunciated set of policy objectives that represents the unified American vision of what our trade relationships should look like and be in the future. Thank you.

[The prepared statement of Ambassador Brock follows:]

PREPARED STATEMENT OF HON. WILLIAM E. BROCK III

I am pleased to appear before this Subcommittee as it considers the current state and future direction of U.S. economic relations with Japan. The topic is of vital importance. Our economic relationship with Japan affects the vitality of the international economic system as well as the economic strength of Japan and the United States. Trade is the linchpin of this relationship. It is the Administration's goal to ensure that U.S.-Japan trade flourishes under conditions of open and equal access to each other's markets.

Japan is the United States' second largest export market, accounting for $20.8 billion in U.S. merchandise exports in 1980—9.4 percent of our total exports. In addition to being big, the Japanese market is dynamic. During the past five years, increases in U.S. exports to Japan have averaged nearly 17 percent per year, compared to a rate of 15.4 percent for U.S. exports overall. The composition of our exports to Japan reflects our comparative advantage. We ship enormous amounts of agricultural products and crude materials, but we also sell very substantial amounts of high technology products such as aircraft and computer equipment.

Japan also is the second leading supplier of U.S. imports. In 1980 U.S. imports from Japan amounted to $30.7 billion, which represented almost 13 percent of total U.S. imports. Imports from Japan have grown approximately 11 percent faster than total U.S. imports since 1975. Shipments from Japan are almost exclusively manufacturers, which is what one would expect from a resource-poor, land-scarce country that has a highly-educated labor force and substantial capital resources. Half of Japan's exports to the United States are consumer goods such as automobiles, televisions and motorcycles. Many interest groups in the United States have complained that Japanese consumer products have contributed to a large bilateral trade imbalance and to job displacement in several American manufacturing industries. We should remember, however, that Japanese imports have helped to restrain inflation, have broadened consumer choice and have provided the competitive thrust necessary to stimulate investment and product improvement by U.S. producers.

Merchandise trade flows certainly are important factors in judging the state of the bilateral economic relationship, but one must keep in mind the entire range of other international transactions that bear upon the relationship—trade in services, direct investment and international lending. Last year, for example, the United States recorded a bilateral services industries suprlus with Japan of $1.2 billion. In addition, the private sector's income from assets in Japan amounted to $4.3 billion, compared to payments to Japan of $1.5 billion. Thus, bilateral merchandise trade balances by themselves do not indicate anything about economic superiority or relative standards of living. This is not an apology or a rationalization for poor American performance. It's simply meant to put the bilateral trade picture in its proper perspective.

Having said that, however, let me add that the United States should do better—substantially better—in its export performance vis-a-vis Japan. The Administration's economic recovery program is an essential step to improve U.S. export performance by sharpening American competitiveness abroad. By focusing on the conditions necessary for non-inflationary growth and by reducing impediments to the efficient allocation of resources, the President's program is designed to stimulate those activities that lie at the core of trade competitiveness—saving, investment and innovation.

The Administration's trade policy is the other government ingredient in the effort to improve America's competitiveness in world markets. Our trade policy aims to maximize market opportunities world-wide for the goods and services of a revitalized American economy. Japan's affluence creates a natural market for the expansion of U.S. exports. I wish to assure you today that improving market access in Japan is among my highest priorities as U.S. Trade Representative.

The first step in developing a workable trade strategy is to make a realistic assessment of the current situation. Let me be blunt for a moment. The U.S. economy is far more open to foreign participation than is Japan's economy. Although the Government of Japan has undertaken significant liberalization as a result of the Multilateral Trade Negotiations (MTN), important formal barriers to trade persist. High tariffs on individual items and quantitative restrictions on important agricultural items continue to impede imports. There also are numerous informal barriers to trade embedded in Japan's economic institutions and policies. The resulting imbalance in openness is an important factor in the U.S. merchandise trade deficit with Japan. This imbalance in conditions of market access must be corrected.

The task before us is not easy. Despite Japan's industrial strength, the Japanese people continue to feel vulnerable to the forces of the world economy. This sense of vulnerability is difficult for outsiders to understand, but it has made the Japanese extremely reluctant to take further liberalization steps. Arriving at a decision to liberalize trade is an excruciating process for the Japanese—as well as for those negotiating with them.

Typically, the United States has had to exert substantial pressure on the Government of Japan to obtain even rather modest liberalization. Our hope for the future is to develop a more cooperative mode for achieving additional trade liberalization. We took the first step in this direction during Prime Minister Suzuki's visit to Washington. The Prime Minister and President Reagan affirmed in their official communique that both countries" . . . are determined to continue their efforts to maintain and strengthen free and open trade principles embodied in the GATT framework." Our challenge is to translate this statement of principle into concrete steps toward freer trade.

Having been rather blunt about Japanese attitudes toward liberalization of their trade regime, I should be equally candid about the reasons for their success in our markets. The Japanese are competitors in the best sense of the word. They have labored diligently to understand potential markets, consumer tastes, distribution networks, retail practices, advertising, packaging requirements and service needs. Japanese firms have tailored their sales efforts to the unique features of the U.S. market. They have committed time, money and manpower to succeed in the U.S. market over the long-run.

Many American firms have not made equal efforts to penetrate the Japanese market. The U.S. Government can take steps to improve the economic base from which U.S. firms operate and can seek improved conditions of market access, but these actions will yield only modest export gains unless American businesses intensify their own efforts to sell in Japan.

TRADE ISSUES

Let me turn now to consider the major trade issues with Japan that are being addressed by the Administration. The issues consist of pending questions inherited from the previous Administration and new directions or approaches that we are developing. I will touch briefly on the former and concentrate on the latter.

The major trade issue with Japan that the Administration faced on January 20th was the penetration of the American automobile market by Japanese imports. On the one hand, we faced very strong pressure to relieve the intense import pressure on a major industry that was attempting to recover from some staggering economic blows. On the other hand, there was strong consumer sentiment against restrictions on imported cars. In addition, the Administration did not want to undermine its reliance on market forces as the appropriate mechanism for allocating resources and determining production patterns. The Government of Japan understood the situation and took the very helpful action of instituting a three-year program of export restraint. The action represented a balance between Japan's own economic objectives and its concern with the economic and political climate in its most important market. Aside from the contribution that the export restraint will make to our own auto industry's recovery, the action is important for having put the auto issue behind us as a major source of friction between the U.S. and Japan. Now both sides can concentrate on expanding trade to the benefit of both countries

The auto issue also indicated once again the necessity of liberalizing access to both countries' markets at an early stage of an industry's development. Great strains are placed on a trading relationship if one partner nurtures an industry behind protective walls while exploiting wide-open markets in foreign countries. We hope that the auto situation will be an important turning point in our trade relations with Japan and that we now can engage in a dialogue to achieve equivalent openness of our economies. This is the only course that makes sense for two huge, market-oriented economies. The need for equivalent openness is the theme that runs throughout the discussion of trade in the Wisemen's report and in the Trade White Paper prepared by the American Chamber of Commerce in Japan (ACCJ). It also has been the thrust of my presentations to senior Japanese officials, and it will continue to be the central objective of the Administration's trade policy toward Japan.

This overriding objective must be applied to each aspect of our trade relationship with Japan. I would like to use the rest of my time here today to discuss the major areas in which we will be pursuing equivalent openness.

AGRICULTURE

The United States exports more agricultural products to Japan than it does to any other nation in the world. In 1980 we exported more than $6 billion worth of agricultural goods to Japan. This represented 29.4 percent of our total exports to Japan and 15.3 percent of our total agricultural exports to the world. Make no mistake. The mere fact that such a large store of our sales to Japan is in agricultural goods does not make us a "Colony" of Japan. Our strong performance in this sector is a product of our technological sophistication, certainly not a sign of underdevelopment. Our enormous agricultural sales to Japan reflect U.S. comparative advantage: in that sense, the trade pattern represents an efficient use of our factors of production and thereby contributes to long-term economic growth. The larger agricultural output due to exports stimulates demand at home for a broad range of nonagricultural goods and services and enables the agricultural sector to achieve economies of scale that reduce the cost of agricultural goods for American consumers.

I firmly believe that Japan has the potential to become a much larger importer of U.S. farm products. As the committee is well aware, Japan's import restrictions prevent U.S. exporters from taking full advantage of the potential demand for certain agricultural commodities. Citrus and beef are two examples of such commodities. Japan's per capita consumption of beef last last year was 5.1 kilos, compared to a per capita consumption of 48.2 kilos in the U.S. and 26.6 kilos in the European Community. The actual demand of Japanese consumers for beef is substantially below that in other developed countries because Japan's beef prices are so high. We are convinced that the liberalization of Japan's restrictions on the supply of imported beef would result in lower prices and increased demand to the benefit of Japan's producers and consumers alike. A similar argument can be made for citrus. Last year, each Japanese consumed only 1 kilo of oranges, while per capita consumption of oranges is 7 kilos in the U.S. and 14 kilos in the EC. These statistics clearly indicate that the potential demand for citrus is tremendous in Japan and that this demand could be tapped if the quota were liberalized.

The Reagan Administration is committed to seeking liberalization of Japan's restrictions on beef, citrus and other agricultural products. Given our comparative advantage and the impressive growth of our agricultural sector, we must look to expand our agricultural sales in Japan. The Wisemen pointed out that Japan's own welfare demands that it expand the scope of market forces in the determination of agricultural output and prices. Departures from open trade such as the beef and citrus quotas can be accepted only on a temporary basis, while the domestic economy of the importing nation makes the necessary structural adjustments. This is the principle underlying the Japanese export restraints on automobiles; the same principle must apply to Japanese import restraints on agricultural products. The timely phase-out of Japan's quantitative restrictions on agricultural imports is in the interest of Japanese consumers and Japan's overall economic growth as well as in the interest of American farmers and the U.S. economy.

PROCESSED RAW MATERIALS

As in the case of food, the large share of crude materials in America's exports to Japan reflects the pattern of comparative advantage between two countries with such different natural resource bases. It is not consistent with comparative advantage, however, that the United States provides such a small proportion of its crude materials in more processed forms. This characteristic of our trade is due in large part to trade impediments in Japan or actions and attitudes on the part of Japanese industry that encourage imports of logs rather than lumber, hides rather than leather and tobacco rather than cigarettes.

We have bilateral agreements or unilateral Japanese actions aimed at improving the balance of processed and crude material imports in all of these categories. We will continue to monitor these situations to ensure that *de facto* improvements in market access occur. We also are working with U.S. processors to increase their ability to meet Japanese specifications, quality standards and product characteristics. Success in this area depends critically upon cooperation among the industries and trade officials in both countries.

HIGH-TECHNOLOGY MANUFACTURES

High-technology products already are among our most important industrial exports to Japan. In 1980, for example, Japanese imports from the United States included nearly $1 billion in aircraft and aircraft parts, $236 million in parts for data processing equipment and $135 million in digital central processing units. The high-technology field promises to be of enormous importance to both of our economies in the 1980s.

We do not wish to repeat the trade difficulties in computers, semiconductors, genetic engineering, etc., that we experienced in automobiles, steel and televisions. The best way to avoid such problems is to act during the early stages of an industry's or product's development to achieve complete openness of our respective economies to trade in these areas. Semiconductor trade is a case in point. During his visit to Washington, Prime Minister Suzuki announced his support in principle for a mutual acceleration of U.S. and Japanese MTN tariff reductions on semiconductors. Such an action would reduce semiconductor tariffs in both countries to 4.2 percent. Currently we are working with the Government of Japan to complete the details of a semiconductor tariff reduction package. We hope that this step will mark the beginning of a broader mutual liberalization effort in the knowledge-intensive industries.

Japan and the United States, of course, are not the only countries with a stake in high-tech liberalization. Other industrialized countries, particularly members of the European Community, have a responsibility to relax their trade barriers in these industries. As the most technologically sophisticated economies in the world, however, Japan and the United States have an especially strong interest in promoting freer trade in high technology goods.

The traditional trade barriers of tariffs and quotas are not likely to be major sources of difficulty between the U.S. and Japan in the high-tech field in the future. Japan's tariff on mainframe computers, for example, is scheduled to fall below 5 percent by the end of the MTN implementation period, and the final MTN concession rate on peripheral equipment is 6.0 percent. Certainly, we would like to see even these tariffs eliminated, but the critical factors to U.S. export performance in high technology products in Japan appear to lie in a number of Japanese policies that may be described loosely as "industrial policies".

Much has been written about Japan's success in directing assistance to key industries. In some cases, commentators have attributed to Japanese industrial policy a degree of success well beyond what the actual record shows. On balance, however, it is accurate to say that various elements in Japanese industrial policy have made an important positive contribution to Japan's international competitiveness in the high technology and capital goods fields. Among the more successful policy instruments have been public sector procurement policies, joint government-industry research and development, and various financial arrangements that have provided substantial capital to selected industries on very favorable terms. We cannot expect the Government of Japan to foreswear the use of these policy instruments. It is proper for us to insist, however, that the policies not be implemented in ways that create a bias in favor of exports as opposed to production for the domestic market or in ways that effectively shut out foreign competition from Japan's domestic market. It is a much more complicated task to recognize and to address the ways in which such policies can distort trade flows than it is to deal with tariffs and quotas. The preservation of free trade in the 1980's and 1990's, however, requires that we develop means of dealing with industrial policies that potentially distort trade.

In the Japanese market, we've taken an important step in this direction by reaching an agreement on government procurement. We now are engaged in a cooperative venture with the Japanese to implement that agreement. I am pleased to report that the Government of Japan has been very forthcoming in its implementation of the code. Just two weeks ago, for example, we had the NTT procurement seminars in Tokyo. The professionalism and thoroughness that were evident in these seminars indicates the sincerity with which Japan is undertaking its obligations. It still is too early to predict what increases in U.S. sales will occur as a result of Japan's more open procurement policies—much depends upon the efforts made by U.S. firms to sell in this new market—but we are optimistic that the prospects for sales of high technology American products are improving significantly as a result of the steps that both governments are taking. Further efforts in this regard will be an important part of the Administration's trade policy toward Japan.

SERVICES INDUSTRIES

Another area that will be extremely important to both economies in the 1980's is services. Service industries currently account for approximately 70 percent of non-agricultural workers in the United States and nearly two-thirds of our Gross National Product. The service industries also affect significantly our international economic performance. U.S. export earnings from services in 1979, for example, have been estimated to be at least $36 billion. Some contend that the figure is nearly twice that great. Many of our services industries are among the most competitive sectors of our economy. Moreover, several services industries are complementary to high-technology manufacturers. We must ensure that the strong export potential of these industries is not frustrated by foreign impediments to trade.

Both the United States and Japan have been involved in the work on services that has been taking place in the OECD and, to a less extent, in the GATT. This work is aimed at developing an international framework for services trade that will promote the free movement of services across borders. We certainly encourage the Government of Japan to participate even more actively in these multilateral discussions on services issues, and we hope to cooperate with Japan to ensure that our bilateral trade in services develops to its full potential.

Frankly, we're in the very preliminary stages of dealing with services trade with Japan. We have anecdotal evidence of some apparent problems in services trade (e.g., in banking, insurance, telecommunications, data processing and information services), and we have made progress in dealing with some specific services problems (e.g., interconnection of private leased lines for use by U.S. vendors of data processing and data bases). Nevertheless, we have a long way to go to understand the systemic barriers to services trade in the Japanese economy, and we need to develop effective multilateral and bilateral mechanisms for dealing with any services problems that we identify. The topic of services trade with Japan is one to which USTR will be giving substantial attention in the coming year. It is an area in which I will be consulting with the Congress frequently. I should add that the relative newness of this area to U.S. trade policy makes it one in which close consultation with the private sector is particularly important. I believe that our consultations with the Services Policy Advisory Committee (SPAC) will provide the basis for dealing creatively with U.S.-Japan services trade to the benefit of both countries.

PRODUCT STANDARDS

Japanese product standards and the means by which such standards are established continue to create problems for U.S. exports, American producers do not enjoy the same access to Japanese standards-setting procedures as Japanese producers enjoy in the United States. This often leads to the development of standards that make it difficult or impossible for foreign producers to sell their products in the Japanese market. Clearly it is the prerogative of the Government of Japan to establish the product standards necessary to promote national health, safety and environmental goals and to protect consumers. What we seek, however, is a greater opportunity for foreigners to present their views on how Japan can meet its various goals with product standards that do not discriminate against foreign products. We also are seeking improved procedures to certify that American products comply with established Japanese standards (e.g., through acceptance of test data generated in the United States or through Japanese recognition of the equivalence of U.S. standards).

The U.S. Government has been holding bilateral discussions with the Government of Japan on standards-related issues within the Trade Facilitation Committee (TFC) and pursuant to the U.S.-Japan "Joint Statement on Standards, Testing and Certification Activities." We also can deal with standards issues under the MTN Agreement on Technical Barriers to Trade (the Standards Code). Of the standards issues raised so far by the U.S., we have resolved those concerning telecommunications equipment, electrical appliances and small boats. Currently we're dealing with U.S. standards problems in automobiles, cosmetics and processed foods and are planning to take up Japanese standards problems regarding pressure vessels.

We are pleased that substantial progress has been made in resolving individual standards issues and in developing a bilateral mechanism for addressing such problems. As the Wisemen's Report pointed out, however, we need to think increasingly of ways in which foreign economic concerns can be factored into Japanese standards-setting at an early stage in the process. This is an area that I will be exploring in my future discussions with Japanese officials.

CUSTOMS PRACTICES

Japanese customs practices often are cited as constituting an impediment to imports into Japan. Classification of a new product is not binding on customs officials at all ports. The appeals process for suspected misclassification of an imported article is burdensome for foreign suppliers. Valuation of imported goods for purposes of calculating the duty, it is alleged, frequently is unreasonably high.

Both the United States and Japan are signatories to the MTN Customs Valuation. The Code provides a vehicle within the GATT for dealing with customs valuation problems. As in the case of services trade issues, our knowledge of Japanese import impediments in customs practices is more anecdotal than systemic. In order to remedy that problem, the Trade Policy Committee (TPC) has requested the Treasury Department to study Japanese customs practices in order to identify any practices that clearly delay the entry of U.S. imports into Japan. Upon completion of the study, appropriate steps will be taken to seek the elimination of any practices that significantly impede imports from the United States.

SUPPORT FOR U.S. TRADE POLICY

As I said at the beginning of my testimony, I welcome the Committee's interest in U.S. trade policy toward Japan. To be effective, our trade policy must enjoy the support of the Congress and the American people. The only way that such support can be developed is through frequent consultation between the Executive Branch and the Congress as well as between the government and the private sector. Through consultations such as those we engaged in today, the United States will be able to approach the Government of Japan with a clearly enunciated set of policy objectives that represents a unified American vision of what U.S.-Japan trade relations should look like in the future.

I think that these public discussions about our trade policy toward Japan also will serve a useful purpose vis-a-vis another group whose support we need to achieve our objectives. I'm talking now about the Japanese people. I believe that the trade liberalization steps that we have discussed today will contribute to greater efficiency in the use of Japan's physical, human and financial resources and will be in the interest of Japanese consumers. We cannot expect to change Japan's trade policies in ways that are perceived by the Japanese to be detrimental to their interests. By demonstrating that our trade objectives support important Japanese economic objectives, however, we greatly increase the chances of success.

Representative RICHMOND. Thank you, Mr. Ambassador. Mr. Ambassador, you are obviously about to begin one of the most impossible jobs anyone could possibly handle. You've inherited 30 years of mismanagement. I know a man of your ability is going to do a heck of a lot to help that out.

But I just wonder whether we all can agree that our problems with Japan are probably the most pressing trade problems we have in the world today, because here you have an American economy churning out $20 billion of nonrenewable natural resources with very little labor content at incredibly low prices. Nowadays, with corn at $3.60 and wheat at $3.99, it's so ridiculously cheap, with copper at 78 cents a pound—in other words, we're giving away to Japan the very lifeblood of the United States every year, with very little labor in it.

What are we getting back? For the $20 billion of nonrenewable natural resources we're giving to them, we're getting back $30 billion of highly manufactured, highly labor-intensive goods that we could comfortably live without. Every American home already has 1.4 cars and 1.8 television sets, and God knows how many stereos and everything else; right?

So it seems to me that the least the Japanese could do is to lift many of their quotas, many of their artificial regulations, many of their rather underhanded tricks, like the one I mentioned in my opening statement and I've got about six more to mention.

For example, I was talking to the Member of Congress from the State of Washington. He tells me that Boeing, in order to ship a plane to Japan, can only ship 65 percent of a plane. The Japanese insist on doing 35 percent of every plane that comes in from the United States. What if we said to the Japanese, well, in that case, we'll do 35 percent of every automobile you ship here? We Americans are certainly quite capable of putting on the wheels and the tires and other items on the Japanese cars.

What right do they have to have this unfair set of restrictions against us with this $10 billion deficit balance, with the fact that they get the manufacturing out of it, the employment out of it, with the fact that the greatest problem, still, in the United States is our unemployment situation.

Can you answer that? And specifically address yourself to the Boeing thing, which I think is so totally unfair.

Ambassador BROCK. Well, obviously, we don't believe that product standards, performance standards of that sort are in anybody's interest. We've run into it in country after country around the world and that's one of the major objectives of our trade policy—to try to establish, not just on a bilateral basis, but across the board, an international code that would allow us to deal with those problems in a predictable and a logical fashion within a code of law, if you will, at the GATT, primarily.

I'd like to make two comments. First of all, I do think that there is some hazard in looking at the trade balance that we might have with any single nation. I think it's important to try to keep our trade balance in a larger context. In looking at it from the sum total of the whole world, there will be constantly, for the rest of our natural lives, circumstances where some countries sell more to us and others buy more from us.

We sell a heck of a lot more to Europe and the trade deficit that Europe has with us is greater than our deficit with Japan. So there are balancing offsets here that we've got to keep in mind.

But in the specific context of your question, it is true that Japan, as I said in my prepared statement, has far more barriers in their markets to our products than we have to theirs. I don't think that's in their interest; I certainly know that it is not in ours.

The point is well taken that we could not only benefit American farmers, American workers, American employees and create jobs if that situation were redressed, but we'd do an awful lot for the Japanese economy.

Representative RICHMOND. Exactly.

Ambassador BROCK. That's the bottom line, too, for them. The price they're paying for some of these agricultural products is unbelievable, unbelievable. And as a consequence, their consumption of beef is about 10 percent of what ours is, for example, or 10 percent of what Europe's is, because their people can't afford to bite it off.

Representative RICHMOND. You know, Mr. Ambassador, when I was in Japan, they said to me, why do you keep bothering us? You know, each Japanese citizen only has one stomach.

Ambassador BROCK. One what?

Representative RICHMOND. One stomach. [Laughter.]

They said, how much do you want to feed us? And I explained, obviously beef at $20 a pound is not going to be within anybody's budget. But beef at $3.50 or $4 a pound would be within everybody's budget.

Ambassador BROCK. That's right.

Representative RICHMOND. I said that there has to be some sort of realism between our two countries. Why don't you let us ship frozen boxed beef to you? This way our farmers get the corn, our cattle raisers get the cattle and the feedlot business, our slaughterhouses get the slaughtering. We freeze and box the beef. We're the best in the whole world when it comes to boxed beef. And we could ship it to them at one-fifth their own cost. Yet, they won't let it in.

Ambassador BROCK. That's right.

Representative RICHMOND. They let 40,000 tons in last year out of their total consumption of 500,000 tons. It's so totally unfair and that's why we have to look to you to rectify some of this.

Ambassador BROCK. We've had a lot of conversations with the Japanese Government and its officials on the subject. We do face this particular problem: We are living with an agreement that has already been signed in prior years which does establish quotas, particularly on beef and citrus. If I recall, those agreements do not expire until the end of the 1983 fiscal year, which is in March 1984.

We have discussed with them the possibility of expediting some conversations on further liberalization and they did indicate some interest. We have no set date and no firm agreement, but I do hope that they will be forthcoming and we do intend to press on the matter.

Representative RICHMOND. Our own USDA does a very good job of inspecting vegetables, as you know. We're highly qualified in the United States. The Japanese manual on vegetables and fruits is 10 times the size of ours, literally. Our agricultural attaché at the Tokyo Embassy tells me in order to get one page of that manual changed, it takes 30 different signatures from 30 different Government officials.

That's how they rig these rigid barriers against accepting our vegetables. They say that they can't accept our vegetables because they have aphids on them. They don't want their aphids to mix with our aphids. [Laughter.]

They dream up these crazy schemes just physically to keep our products out of Japan. Now something has to be done. And their arrogance knows no bounds. As I was telling you before, yesterday Minister Tanaka, the minister for international trade and industry, made the most arrogant statement. I couldn't believe it in the paper. He said, well, he wasn't sure that Japan was going to share its laser technology with Defense Secretary Caspar Weinberger. Yes; there had been some discussions, but he wasn't sure that that was possible because, after all, Japan did have a policy about exporting defense technology.

Have they forgotten that they spent 0.09 of 1 percent of their gross national product on defense and we spent almost 8 percent of ours? And they spent 0.04 of 1 percent on business entertaining. So they spent just twice as much on defense as they do on business entertaining. And they let us pick up the tab, and then they have a little bit of laser technology which we can really use, and they're being incredibly arrogant about even dreaming of giving it to us.

Those are the sort of things that I would hope you might be able to break down and not have to wait until the next series of GATT negotiations. Is it possible?

Ambassador Brock. Yes, yes, it is.

Representative RICHMOND. What about some of these individual items? Do you have teams of people that could possibly work on them? I have so many horror stories.

Ambassador BROCK. Well, any of those that you have, we would appreciate. One of the things that I've asked, particularly of our business community, is that they provide us with concrete, specific examples of problems as they occur so that we can go to work on them.

We are a very small agency, as you well know. I like that because it gives us a lot of freedom of movement. We can move fast and quick. But we do have to have the support of yourself and the private sector to give us specific examples to work on. We have a lot of those and we're involved in very good talks in a number of areas. But I do think that anything of that sort that you can provide would be very helpful to us.

Representative RICHMOND. We have a U.S. manufacturer of vaporizers. The vaporizers were designed with a low profile so as not to tip over. The Japanese set a new standard for vaporizers requiring that they be designed to tilt 60° before the water leaked from the top, which is a standard that we couldn't meet. The U.S. manufacturer would have lost the Japanese market while redesigning the product if the Embassy hadn't gotten involved in the issue.

You know, we have so many of these cases where they overinspect, they overindulge themselves on quotas, on ridiculous requirements. I suppose that each one is miniscule in itself.

Ambassador BROCK. It's not, because it's illustrative. I have a certain sense of irony in this conversation because I spent the last few years talking about our own bureaucracy and what we do in that regard.

Representative RICHMOND. Is theirs worse than ours?

Ambassador BROCK. In the import regard, yes, it is. Not in the overall sense. I think we still hold a pretty good standard for the rest of the world.

But one of the things that we are seeking from them is not only transparency in their decision process, and that's a real problem because unless we know of how these decisions are reached and can be involved in them, then we find something that's a fait accompli and it's too late. And our manufacturers in this particular case, whether it's an aerosol container or whatever, are excluded from participation in the market.

But more importantly, we open up our standards process in this country for anybody to participate. We have public hearings day after day, ad infinitum. Any foreign manufacturer can come in and testify on the establishment of a U.S. standard. We do that just as a matter of due course because we think it's good business to do it that way. We like the input of as many people as we can because it helps to make a better standard.

We do not have that opportunity in Japan, and that's a very serious problem that we have sought fairly consistently in the last several months to redress.

Representative RICHMOND. You know, you talked about Japan penetrating our markets by building better mousetraps and beating a path to our door, which, obviously, they're doing. But later this morning, we're going to hear from George Scalise, a representative from the semiconductor industry, and I'm sure that that one is bothering you. His testimony details the advantages that the Japanese semiconductor industry draws from government targeting.

Now how will your hands-off approach to trade deal with Japanese initiatives, for example, in the semiconductor industry? Will we know for a fact that government is subsidizing the entire operation?

Your statement yesterday indicated that our Government would plan to have a totally hands-off position with regard to business in the United States, as much as possible. Correct?

Ambassador BROCK. That's correct.

Representative RICHMOND. And let the free market be the final factor.

But how can you let the free market be the final factor when we know that the Japanese Government, MITI, and every other Japanese agency, and the Japanese banks and business are just totally in partnership with each other?

Ambassador BROCK. Let's take semiconductors because that's a very good example of the concern and what I think would be our answer and it may be different from the answer of others.

Representative RICHMOND. Yes.

Ambassador BROCK. I believe that if the barriers that exist, and in this particular case, we do have a tariff barrier that exists. Their tariff is more than twice, or right at twice what ours is. What we have asked for and what we have a tentative commitment to change is that the tariff be harmonized down to a lower level for both countries, approximately 4.2 or 3 percent.

We're in very intensive negotiations on that at the moment. Prime Minister Suzuki, as I said earlier, did commit to that principle of reaching for the objective. We believe that our companies are fully competitive and capable of competing with the Japanese firms in this area.

I might point out to you what this administration has proposed in the tax bill. If you look at the reduction in taxes to be paid, because of the change in the depreciation schedule, if you take a 5-year depreciation schedule and add on 150 percent declining balance and a 10-year investment tax credit, that's the equivalent of just about being able to write off equipment investment in 1 year.

Now that's as competitive as anybody in the world. It isn't better than anybody else's, but it's as good.

Second, we have proposed a 25-percent research and development tax credit. Now if we put those two items into the U.S. Tax Code so that this Government stops taxing creativity and risk and starts rewarding them instead, I don't have any doubt in my mind that we can chew up any competition that exists out there and do it very handily without any further Government action and certainly without Government subsidy.

Representative RICHMOND. Well, now, even though I'm a very liberal Democratic Member of Congress, I agree with you 1,000 percent.

Ambassador BROCK. Thank you.

Representative RICHMOND. I think also you might take into account the fact that Japan, a country half our size, is annually graduating many more engineers than we are.

Ambassador BROCK. They're graduating more engineers—I would have to argue that we still have a remarkable degree of quality in our engineering schools.

Representative RICHMOND. However, the Japanese are doing more R. & D. than we are, and I think that this tax plan might help.

Ambassador BROCK. That's the purpose of the tax plan.

Representative RICHMOND. I think it's excellent.

Ambassador BROCK. One of the things that is true is that we have, by the mix of our tax policies, inadvertently created a short-term mentality in the American enterprise system where we look more at today and this year's profits and less to 10 years out.

The Japanese, because they have a different financial mix, they leverage their companies much more than we do. They're much more debt-oriented—and we're equity-oriented. They are able, because the Government holds down the price of interest at about a third of what ours is, unfortunately right now, they are able to make decisions for 5, 10, and 15 years out that we don't often enough make.

I think one of the purposes of this tax bill, with particularly the 25-percent P. & D. tax credit, is to create a climate in which we start looking more to the longer term and draw out our investment and expand our investment in theoretical and applied research for a more fundamental purpose.

Representative RICHMOND. I think you're absolutely right. You know, in your prepared statement, you mention that the United States is now 70 percent service-oriented and 30 percent manufacturing.

Ambassador BROCK. That's right.

Representative RICHMOND. I think that we all have to remember that in order to keep being the great power that we are, we can't do it through our service industries. We have to basically fall back on our manufacturing industries because it's only through manufacturing that we can have any type of defense posture anywhere. Right?

And if we allow the Japanese to nickel and dime us to death and gradually take away all of our major manufacturing capacity, even though we're a great service-oriented country, we're still going to be far from a powerful country, right?

So we've got to do everything that we possibly can to let the American manufacturer at least have an equal, fair deal, dealing with Japan; right?

Ambassador BROCK. I do agree with what you say. When you look at certain basic industries like steel, this country is just never, if it stays in its right mind, going to allow the demise of a basic industry like that.

Representative RICHMOND. Japan has 56 modern steel mills; we only have one.

Ambassador BROCK. All right. But is that the fault of the steel manufacturers or a Government policy over the years?

Representative RICHMOND. It's the fault of the steel manufacturers.

Ambassador BROCK. The steel manufacturers?

Representative RICHMOND. In my opinion, it's the fault of the steel manufacturers. It's the fault of American management, which has gotten soft, as against the Japanese management, which is incredibly diligent. And when the steel manufacturers could have modernized years ago at cheap interest and really built modern plants, they didn't. Now that they see they need them, they can't afford them.

Ambassador BROCK. I really can't accept that. I do accept the fact that there are plenty of companies in this country that don't have adequate management, but that's true in every church. There are plenty of constituents that don't adhere to the tenets of the church.

Representative RICHMOND. Right.

Ambassador BROCK. The fact is that we, by creating a stagnant economy, and that's the result of, not of the decisions of individuals, but of the actions of Government, we have made it almost impossible for some companies to modernize and to do the things that they have to do to be competitive.

We don't have regulations that are cost conscious. When we don't calculate the fact that we shift our resources into investments that are nonproductive by Government mandate, when we have taxes that are so high that they create a disincentive for risk, for investment, for savings, then that is not the fault of the individual manufacturer.

There are plenty of faults that you can find with them, but I don't think we can put the whole burden there. And I do think that one other point ought to be made, Congressman. I think we ought to be very careful that we don't make the Japanese into something that they are not. They're not supermen. They are not all that much better.

Representative RICHMOND. Right.

Ambassador BROCK. If you look at the productivity of the American people, in sum total—now you can take selected industries where they're better, but you can take the others where we're better—if you take the total productivity of this people, we're the most productive people in the world, by a considerable order of magnitude. Their productivity is 61 percent of ours, in sum total.

So, you know, we've got to be careful we don't let their success in a few areas—automobiles or steel or electronics—skew us into making the wrong policy decisions.

Representative RICHMOND. Except, Mr. Ambassador, we have example after example of Japanese management and Japanese capital coming into the United States taking over semidefunct companies and doing extremely well. I agree with you that American productivity is excellent under proper management because here Japan comes into California, and Sony opened up there, and Sony's No. 1 plant in the world, as you know, is not located in Japan; it's located in California.

Ambassador BROCK. That's precisely my point.

Representative RICHMOND. But they have Japanese management.

Ambassador BROCK. They have good management; right.

Representative RICHMOND. Yes.

Ambassador BROCK. And that's something that we need to go back and read our own textbooks. That's where they got the knowledge to be good managers.

Representative RICHMOND. Sure.

Ambassador BROCK. They read our books and they followed it.

Representative RICHMOND. Matsushita Electric Co. took over Motorola's defunct factory in Chicago to make their Panasonic line and they're doing extremely well.

Ambassador Brock. But the point is, as you said, the best single Japanese Sony plant is not in Japan; it's in San Diego, Calif. There's a lower loss rate, a lower error rate, a higher productivity than they have in any facility in Japan.

All I'm saying is let's not underestimate ourselves.

Representative Richmond. Right. I think that American workers are every bit as good as Japanese workers. There's no question about that. I think Japanese management and the Japanese technique of working closely with unions seems to have been very successful.

I've got example after example of Japanese coming into the United States and taking over defunct factories and doing extremely well with them, which means that they've got something that we don't have. That's why I really welcome Japanese investment in this country and would hope that they continue increasing.

You know, it's very strange that with our major trading partner in the world, practically, each of our countries has such a small investment in the other country—we only have less than $5 billion investment in their country and the Japanese have less than $5 billion worth of investments in the United States.

Ambassador Brock. Now you have mentioned some areas where there's need for more effective action.

Representative Richmond. Sure.

Ambassador Brock. We do not have adequate investment opportunities with Japan.

Representative Richmond. Right. Can you do anything about that?

Ambassador Brock. One of the ways that you can get into that market is by investing. You hear so often the complaint, well, we can't get into Japan, not because of Government policy, but because of the social mix and the economic mix. You can't buy in over there.

Well, that's got to change. They've got to be willing to open up. There's got to be free flow of capital if we're going to have free trade. Capital is a part of trade and that's one of the things that we are going to spend some time looking at.

Representative Richmond. I understand that the local municipality, the local municipality in Japan, has a veto power over whether or not an American company can come in and buy a Japanese company.

I heard one example where a local municipality just voted against an American investor coming in and buying a company there. Can you imagine a local municipality in the United States doing such a thing?

Ambassador Brock. There would be a reaction. [Laughter.]

Representative Richmond. See, everything we have with Japan is so totally weighted in their favor, because we remember the time that they were totally devastated and very poor. But it's so hard for us to realize that they are now somewhat richer than we are and going at a much faster tempo than we are.

Our productivity dropped last year and theirs went right ahead 3, 4 percent.

Ambassador Brock. Well, we hope to change that with the administration's economic plan. We appreciate your support.

Representative Richmond. How do you feel about the defense setup that we have? I'm sure that you're involved in it also where the

Japanese do so little in defending themselves and expect us to do everything and refuse to pay any part of our defense bill there. Do you think that's fair? Can that be adjusted? Is that something that you can work on with our Secretary of Defense?

Ambassador BROCK. I think we all have to work on that, Congressman. The Japanese effort is just frankly inadequate and there is no justification for it.

They continue to say that their own constitution, which we did obviously help write, imposes a limit on that. It does not limit them to the extent that they're limiting themselves, by any stretch of the imagination. They must do better because there isn't an absolute limit to our capacity to carry the load of the world. And we've got to have some help.

Representative RICHMOND. Mr. Ambassador, here we have the situation where the Japanese are spending 1 percent, I think less than something like $20-odd billion a year on defense as against this year our $222 billion.

Ambassador BROCK. It's unacceptable and it cannot continue that way. We will exert every leadership that we can to get that to change and frankly, they're going to have to make some tough decisions. It's been very comfortable: They put all their resources into building up selected industries where they have become competitive and in the time in which they're building those industries up, they had total protection. Total protection. They used every device they could to build those industries up and now they seek free trade. That's fine. They have every right to seek free trade. It is something that we share and believe in. But trade does have to be a two-way street. And so does defense. It is time that Japan carried its full lead. They're a grown up boy now.

Representative RICHMOND. Can you imagine if our defense bill would drop, what we could do with our national health plan, our national railway system, as they have?

In other words, they're getting a free ride in defense from us and therefore, they have the finest railway system in the world, a superb health plan, and then they subsidize the farmers at 500 percent.

Ambassador BROCK. Yes.

Representative RICHMOND. Mr. Ambassador, thank you very much. I certainly appreciate your coming and I hope that we can work together in straightening out some of these individual inequities.

Ambassador BROCK. I intend to and I appreciate your interest very much. It helps. Thank you.

Representative RICHMOND. Thank you. Mr. Ambassador, we have a whole series of questions which I didn't want to take up your time with this morning. May we submit them to your office and we'd be very grateful for some answers.

Ambassador BROCK. Surely.

Representative RICHMOND. Our next panel is: Mr. John Sodolski. vice president, Electronic Industries Association; Mr. George M, Galster, vice president and director of international marketing of Champion Spark Plug Co., and Mr. Galster is chairman of the Automotive Products Export Council; and Mr. George Scalise, vice president, Advanced Micro-Devices, Inc., and of course, Mr. Scalise is from the Semiconductor Industry Association.

Mr. Scalise, we're awfully glad to have you here, sir. I, for one, would like to do everything that we possibly can to help keep the semiconductor business here in the United States. After all, we invented it; didn't we?

Mr. SCALISE. That's correct. We certainly did.

Representative RICHMOND. We invented the automobile, too. But it seems to me that we Americans ought to understand that it's about time that we work just a little harder to keep the markets that we ourselves have developed. This is one of the shining examples of American success throughout the world. Please proceed, sir.

STATEMENT OF GEORGE SCALISE, SENIOR VICE PRESIDENT, ADVANCED MICRO DEVICES, INC., SUNNYVALE, CALIF., ON BEHALF OF THE SEMICONDUCTOR INDUSTRY ASSOCIATION

Mr. SCALISE. Thank you, Congressman. We believe that and we believe that there is an opportunity to achieve that goal. Certainly, there are some difficult problems to overcome. But nonetheless, we're confident as an industry that we have the capability, technology, productivity, innovation, and cost and marketing strategy. We have all of the ingredients necessary, we believe, to remain a viable, effective competitor and a very important contributor to the worldwide electronics industry.

So although we recognize the problems, we're confident that we can overcome them.

However, it's going to require some help, cooperation, and understanding on the part of the Government. Policies and programs must be implemented to insure that the path is clear enough for us to exercise these capabilities.

In that regard I would like to go to the statement that we have prepared here today. I'd like to first of all express my gratitude to you, Representative Richmond, for the opportunity to appear here today and testify on behalf of the Semiconductor Industry Association. My company, Advanced Micro Devices, is located in Sunnyvale, Calif. And there's a correction in my testimony here where it says that our sales were $226 million. That was in our last fiscal year. In the fiscal year just concluded in March, our sales were $309 million, a growth of 37 percent from year to year.

So we have had substantial growth over the 12 years of existence of our corporation and anticipate continued growth of that magnitude in the future.

I will try to organize my remarks in the context of the statements of Secretary Baldrige and Ambassador Brock. My focus will be on the competitive challenge offered by Japan's high technology sector—integrated circuits, telecommunications, and computers.

But I think to start this off, our basic problem can be simply stated: How can we maintain U.S. technological and market leadership in the face of severe competitive pressures from our trading partner across the Pacific; namely, Japan.

After reviewing over 2 years of intensive research by industry analysts, the government, and several university researchers, the SIA has concluded that the most serious aspect of the commercial competition from Japanese companies derives from the structural differences between the economic environments in Japan and the United States.

Indeed, these structural differences constitute the greatest threat to long-term viability of the U.S. industry. This industry, is unlike the others that have experienced the full force of the Japanese export competition. In this case, we're very highly innovative, we're highly productive, undergoing rapid growth, and we're very aggressive, in international trade and investment.

Currently, U.S. based company annual sales to the merchant market is about $8.4 billion. We anticipate that by 1990, this will grow to something in the $50 to $55 billion range, tremendous growth over the next 10 years.

Representative RICHMOND. $8.4 billion to $55 billion in one decade?

Mr. SCALISE. That's correct. That's correct.

Representative RICHMOND. That's an enormous growth.

Mr. SCALISE. It's an enormous growth, but when one looks at the markets that are out there, the ones that are unfolding, telecommunications, for example, we have barely scratched the surface today. Automotive applications are in the very early stages. Certainly, in informational systems areas, although we have a lot of computers around, when you get to the arena of terminals, there are many applications that will ensue fiom there. There's tremendous application yet to be generated there and as a result, there will be very high semiconductor consumption.

So even with the continued decrease in cost for a given function, and higher performance for that cost, we anticipate this kind of market over the next few years.

We should also realize that the semiconductor industry is the "crude oil" of the electronics revolution because, really, without the semiconductor industry, the computation, the instrumentation, and the telecommunications market, is not going to grow. It's not going to go through the transition from where it is today to where it must be 10 years from now.

So we're termed the "crude oil" of the electronics revolution. I think that's a fundamental concept and one that should be borne in mind as we look at this industry and the importance of it relative to the total electronics industry, the economy of the United States and the economy of the world overall.

Another important element of this American microelectronic technology is that it forms the basis for the intelligent weapons systems upon which America's future national defense must be based. I think again, as you pointed out earlier, the amount of money that we're spending on defense of our Nation as well as the world is inordinate. However, if that is going to be maintained, microelectronics are important. It's necessary for the sophisticated systems that will be required.

We should look at the competitive situation with Japan and touch on some of the elements associated with the problem. During the late 1960's and early 1970's, as the American companies were developing wave after wave of new products, new technologies, and new systems, the Japanese industry was at that time considered to be an infant industry. As a result, it was very difficult for the U.S. companies to implement the comparative advantage that came from their developments. And as a result of the infant industry program we were not able to make the investments and penetrate the market in Japan to the degree that we would have under a free, fair, open trade arrangement.

During this very same period, while we were developing these technologies, the Japanese industry, in conjunction with MITI, was putting together a target industry program which has been very effective in doing two things—one, it has stifled the American penetration into that market.

The second thing that it did was that it fostered the technology within the companies in Japan to bring them to a point where they could compete very effectively.

So as a result of the target industry program, they have adopted the American semiconductor technology and, where possible, have introduced some manufacturing refinements. With the closed market they've been able to develop a very cost-effective operation in Japan. But more important than that, it has provided them with the base from which to export into the U.S. market.

Now if we look at the trade balance with foreign nations with the semiconductor industry, we have added some graphs to the testimony that you now have there. If you go back over the history, we have had a very favorable trade balance with the European trading partners. That's in spite of tariff of some 17 percent that we have with the EEC countries. We now own about 65 percent of that market.

But with Japan, the tariff imbalance is roughly two to one, as the Ambassador just testified to. But we've only been able to achieve about a 10-percent share of market in Japan. That share of market has been dominated by new products, new technologies, those things that cannot be produced by the local industry. At the point where the local industry can produce the product, we then lose that market and it's our responsibility to come up with a new, innovative product to maintain at least some share of the market in Japan.

That's been the primary reason why we haven't improved our market penetration. As a result, we saw in 1979, where our trade balance went from favorable to negative and now we see that imbalance escalating at a rather alarming rate.

Representative RICHMOND. What exactly happened in 1978 that caused the difference?

Mr. SCALISE. What happened at that point was the full thrust of the target industry program really came into fruition, There was a focus on what we call the 16K Dynamic RAM, a very large market here in the United States.

Representative RICHMOND. How's that used? What's the end use of that?

Mr. SCALISE. Primarily in computers for bulk storage memory. I would estimate in the past year some 120 million were sold here in the United States alone, a very very large market. They focused on this one product, but did not suspect the broad product demand.

Representative RICHMOND. The 16K RAM is what percent of the entire semiconductor industry, which you say is $8 billion?

Mr. SCALISE. I would have to think about that a little bit. Let me just try to calculate that out quickly.

Representative RICHMOND. I'm trying to figure out what their technique is to take over this market the way they're taking over every other market.

Mr. SCALISE. Let me just touch on that for a second. It would be hard to calculate just exactly what that would turn out to be, but I would estimate it to be something in the vicinity of 5 percent, perhaps.

Representative RICHMOND. So what you're talking about is 5 percent of the total semiconductor industry.

Mr. SCALISE. Yes.

Representative RICHMOND. Where they targeted in with the intent of taking over that portion of the semiconductor market.

Mr. SCALISE. Right. There's a very important element associated with that. The Dynamic RAM technology and the volume associated with it is unusual. There is a very broad spectrum of products that one needs to build a computer or an instrument or a telecommunications network. The RAM is one of the very few very large volume of products that provides us with the manufacturing know-how, the state-of-the-art technology that allows us to continue to move, forward up the technology ladder.

Representative RICHMOND. In other words, kind of the bread and butter of the semiconductor industry?

Mr. SCALISE. That's right.

Representative RICHMOND. So they've targeted in on that one?

Mr. SCALISE. Targeted in on that one, and they've gathered about 40 percent of the U.S. market there. There was some comment, incidentally, at the time——

Representative RICHMOND. It appears to have happened between 1977 and 1978.

Mr. SCALISE. That's correct. That's when they made their major move in that area. It was thought at that time that the U.S. industry had not adequately invested after the 1974 recession and, as a result, was somewhat vulnerable to this penetration.

Representative RICHMOND. What's happening now?

Mr. SCALISE. There's an imbalance in the opposite direction, now there is a surplus of 16K Dynamic RAM's, in fact, of components in general today, althought we think that that is temporary. It's one that you will see go away over the next several months.

Representative RICHMOND. No, I mean what's happening with U.S. firms? Are they now modernizing and realizing that they better do something to keep ahead of the Japanese or hasn't it occurred to them yet?

Mr. SCALISE. Oh, absolutely.

Representative RICHMOND. In other words, we see that in 1977, 1978, 1979, the Japanese prepared to capture 40 percent of our market; right?

Mr. SCALISE. Right.

Representative RICHMOND. Now are we Americans doing anything about it?

Mr. SCALISE. Absolutely.

Representative RICHMOND. What?

Mr. SCALISE. Even during that period, we were very aggressive about developing additional production capability to respond to the market. I think that that has been completed. There is adequate production capability using the most advanced process equipment and facilities that exists in the world today. We have that in place now and will continue to invest in that area. In fact, in a company such as ours where last year we invested in approximately $50 million in capital, we plan to invest $100 million this year.

Remember our sales last year were $309 million and our plan is to invest $100 million in facilities and equipment in the current fiscal year. That is not unusual in the industry. The industry has heavily invested year after year in new processing, and new product development. Our research and development expenditures is about four times the national averages—about 27 percent of our sales.

Representative RICHMOND. How do you compare that with the Japanese effort?

Mr. SCALISE. Pardon?

Representative RICHMOND. How do you compare that to the Japanese effort?

Mr. SCALISE. I don't really know. Theirs is high, though. There's no question about it. In fact, from a capital investment standpoint, I would think we're roughly comparable. They're investing very, very heavily in new facilities, not only in Japan, but here in the United States. We have evidence that some companies are investing up to $200 million in new facilities here in the United States.

Representative RICHMOND. Here I have no objection. I urge and welcome the Japanese to come to the United States with their money, with their technology, their management and develop industry here. That's how this great country grew.

Mr. SCALISE. Right.

Representative RICHMOND. Every single American traces his ancestry back somewhere. So I welcome the Japanese here. What I object to is the fact that they constantly put up artificial barriers against our products and constantly take advantage of us.

Ambassador Brock said that Japan is going to reduce the tariff on semiconductors to the U.S. level, right? But we know that the Japanese can keep our semiconductors out through administrative guidance and rules and regulations and quotas and God knows what.

These are the things that we've got to get to Ambassador Brock and Secretary Baldrige and get them to understand that we just can't tolerate that year after year. This Japanese arrogance is beyond belief. The deeper you get into it, the more you see—sure, you finally get them to equalize tariffs. Well, then they set up other types of barriers. You cut down the barriers and then you find that the government is supporting these companies. You stop that and then you find that they dump their stuff here.

It's just a constant battle to get the Japanese to realize that it's about time that we worked as equal trading partners.

Mr. SCALISE. That's right. I think that one of the points that was brought out here a few minutes ago in your discussion with the Ambassador relative to U.S. industry versus Japanese industry, the management concept and all, I think that there's something that has to be recognized here and that is with the structural advantage that the Japanese industry has, very high debt leverage and the organization around the banks that allows for ease of lending and ease of access to funds, it certainly provides for the opportunity for management to have a much longer view of their opportunity and how to deal with it than within our arena, where it's important that we have a return on investment that is going to allow us to generate additional equity.

Representative RICHMOND. Take that $100 million that your company is going to invest in new equipment. Part of that is going to be borrowed money, I assume.

Mr. SCALISE. That's correct.

Representative RICHMOND. And you'll be paying what rate of interest?

Mr. SCALISE. It will be very high.

Representative RICHMOND. About what?

Mr. SCALISE. Here today, we're talking about 20 percent.

Representative RICHMOND. So you've got to pay $20 million a year for that $100 million; right?

Mr. SCALISE. That's correct.

Representative RICHMOND. Now your counterpart in Japan is doing what?

Mr. SCALISE. About 7 or 8 percent. And he has access to a lot more money.

Representative RICHMOND. Sure, because the Government and the banks and the unions are his partners.

Mr. SCALISE. That's correct. So I think that we certainly want to recognize the capability of Japanese industry, Japanese management, and all the things that they have done very well. I think that there are many, many things that we can learn from that.

By the same token, I think we ought to recognize the advantage the structural advantage, that they have that helps them to do these things and, in fact, possibly even making more mistakes and having more time to correct those errors then we might have here. We don't have that same latitude.

Representative RICHMOND. No.

Mr. SCALISE. So while we seem to be critical of how poorly some segments of the U.S. industry has done, by the same token, I think in many cases they have done very well if you look at the structural differences between the two.

Representative RICHMOND. I'm sure that you agree with Ambassador Brock and me that there's nothing wrong with American productivity.

Mr. SCALISE. Absolutely not.

Representative RICHMOND. American workers are every bit as good as any in the world.

Mr. SCALISE. Without question, without question. I think our industry has proved that time and time again. We continue to produce more advanced products, with greater value for the dollar, as measured by any standard.

I think that the American engineering ingenuity is still there, the American production, talent is still there, the innovative effort, all of the things that are necessary that comes from the human ingredient we have as a nation.

Representative RICHMOND. I think if our Government—namely our Commerce Department and our Special Trade Ambassador—could just equalize opportunities. You see, all I really want is a 50–50 deal with the Japanese. I don't think I'm asking too much. Do you?

Mr. SCALISE. No, not at all. In fact, one of the points that we have made recently on several occasions with our Japanese trading partners is there's an unusual opportunity, I think, to resolve the issue relative to semiconductors because as one looks at the structure of those companies that are the largest exporters to the United States in the electronics equipment and electronics components arena, they are also the ones with the opportunity to buy from the United States exporters in Japan. They're the very same people. There's roughly 6 or 8 of them that dominate that industry.

Consequently, if they really want to share in our market in the open, free trade arena that we have available, and we welcome that competition, then I think they also have the responsibility to provide those U.S. companies that are, in fact, competitive in price, competitive in quality, innovative in new products, providing them with the opportunity to build more advanced equipment. They have the responsibility, then, to purchase from us on a continuing basis, not just during that period prior to the local industry being capable of replicating the product.

So I think there is a unique opportunity that should be stressed and it should be discussed time and time again with these particular companies because they are the ones that are sharing in our market and they have the opportunity to provide us with that same open free trade arena.

Representative RICHMOND. Sure. Mr. Scalise, once we do equalize the tariff barriers on semiconductors, do you think that that will materially help our industry, or will the Japanese lower their prices or do something else to counterbalance?

Mr. SCALISE. Well, I don't think the tariff barriers will have any significant impact on the trade balance at all.

Representative RICHMOND. Even though their tariff is twice ours?

Mr. SCALISE. Yes; even though it is twice. I think it's absolutely a very important step forward because I think it shows the U.S. Government is very much behind the industry, very much aware of what is taking place, and is involved in the well-being of the industry, if you will.

However, I think, as you have pointed out, the troubles that we face are not so much the ones that are associated with the tariffs. They are really those that are more in the nontariff-barrier arena.

Representative RICHMOND. You're one of the critical industries, to me one of the great opportunities of the United States. You've got one of the most important defense capabilities of any industry in the United States. We can't live without you.

Mr. SCALISE. That's right.

Representative RICHMOND. Now, we don't want to find ourselves in the miserable position of having to import our semiconductors from Japan. What do you think our Government ought to do to help our industry stay healthy and develop, or do you think our Government ought to just keep hands off and let you run your own company without any assistance?

Is there anything that we can do or do you think that we ought to do nothing?

Mr. SCALISE. Well, it's one of those issues where you come down at a point where you have to make some very hard choices. Our position as an industry association has been one of free, fair, open trade environment. We believe in that. We believe we can be effective and competitive. We can be a very important contributor to the electronics industries throughout the world.

Thus, I guess what this says is we have to find a way of having Japan adopt that same philosophy and provide us with that same opportunity we provide them.

Representative RICHMOND. That's where Secretary Baldrige and Ambassador Brock have to come in, right?

Mr. SCALISE. Right.

Representative RICHMOND. And their staffs.

Mr. SCALISE. Right.

Representative RICHMOND. I think in this case we really do need some government help.

Mr. SCALISE. We do. I think we absolutely do. And I think that the meetings that were held in Japan during June by the Commerce Department with the NTT people on how we participate with their programs over there, is a step in the right direction. That certainly helps because, again, it shows the interest of the U.S. Government relative to the industry wanting to do things that are appropriate to achieve a better trade balance.

But I think that, most of all, what really needs to be done during this current period is for a continued evaluation of the data that shows the difference in this trade balance and what can be done about rectifying this.

Representative RICHMOND. Mr. Scalise, if I were a semiconductor manufacturer, I would be working a lot harder right now. The fact that 40 percent of our market is inundated with Japanese products in an industry that we invented—it's even worse than the automotive situation, where only 27 percent of our market is inundated.

Mr. SCALISE. Well, that's correct. Now, again, I think we're trying to reverse that. We've got that coming back down.

Representative RICHMOND. Here we're complaining about steel and 9 percent of our market is inundated with Japanese steel, 27 percent of our market is inundated with foreign cars, of which 22 percent are Japanese. But 40 percent of our market is inundated with semiconductors.

Mr. SCALISE. That's correct.

Representative RICHMOND. A product that we ourselves researched and developed, built.

Mr. SCALISE. That's right. INTEL was the founder.

Representative RICHMOND. INTEL was the founder, sure.

Mr. SCALISE. Right, yes.

Representative RICHMOND. And we've lost 40 percent of that market. And you say it's going to be one of the greatest markets in the next decade.

Mr. SCALISE. It's the fuel for, the innovation for the advanced processing technology, we believe it's absolutely true.

Representative RICHMOND. I understand that Texas Instruments, didn't they build a plant in Japan, finally?

Mr. SCALISE. Yes.

Representative RICHMOND. How is it operating?

Mr. SCALISE. Well, I understand that it's operating reasonably well. I think that they have enjoyed a better market share in Japan as a result of having an operation there. However, I don't think that the market conditions there, again, provide them with the opportunities that one would expect out of having the kind of investment that they have in Japan.

Now I'm not sure what their view is on that, but based on what information I have, I would guess that they are certainly far less successful relative to the Japanese market than the Japanese investors in the United States are in the U.S. market.

Representative RICHMOND. Are you folks going to set up a plant yourself in Japan?

Mr. SCALISE. We're evaluating that opportunity right now. In fact, I was in Japan in March and June.

Representative RICHMOND. Have you gone through some of their factories?

Mr. SCALISE. Yes.

Representative RICHMOND. Have you found them to be appreciably better than ours, or worse, or what have you seen?

Mr. SCALISE. Roughly comparable. A lot of the equipment that is being used over there is manufactured here in the United States.

Representative RICHMOND. Like what?

Mr. SCALISE. The wafer processing equipment. I don't know what percentage of it. Perhaps 60 to 70 percent of it is U.S.-manufactured equipment. There is some manufactured there that is very good, though. In the assembly arena, I think they're doing very well. However, the U.S. equipment that is available is roughly comparable. I don't see significant productivity differences in equipment that is available in Japan.

Representative RICHMOND. Then how do they get 40 percent of our market?

Mr. SCALISE. Well, I think one of the things that you can look at is that their cost accounting is far less than ours.

Representative RICHMOND. Let me interrupt you for a second. I went over there and studied the Japanese industry. I spent a lot of time over at Toyota. I saw with my own eyes why Toyota is able to compete so effectively in this market. They are totally automated, spotlessly clean, incredible quality standards, and they put out a very, very good product for a small car.

Now it's not Japanese productivity. I went into one factory that was 7 acres, 300,000 square feet, an assembly plant, with 170 workers. So it's really not Japanese productivity. It's the fact that Japanese engineering is superb, Japanese standards are superb, Japanese equipment was excellent. The layout there was fantastic. Many machines that I myself designed when I was back in the transfer machine business back in 1949, the newer models were right there at the factory. You hardly saw any people. How many people can you see with a 7-acre plant with 170 people.

So it's not their people; it's their engineering, it's their design, it's their management, it's their technique, it's their standards.

Mr. SCALISE. I think that's probably true in some industries.

Representative RICHMOND. Now what about semiconductor? If we're that good, how did they pick up 40 percent or our market?

Mr. SCALISE. OK, I think, again, we'll go back to the structural advantages. The cost of capital here in the United States in the studies that were generated by several reputable organizations, indicate that we have a cost of capital of some 17 percent. Theirs is roughly 9 percent.

Representative RICHMOND. That's only recently that we've had that kind of situation.

Mr. SCALISE. Pardon?

Representative RICHMOND. It's only recently that we've had that high a cost of capital, right?

Mr. SCALISE. Well, but again, during this particular period where they're making investments in our industry where they had not been doing so in the past——

Representative RICHMOND. Yes.

Mr. SCALISE. We have to earn our cost of capital, and we are; they are not earning theirs. If you look at their margins as corporations, those that we compete with, they are very, very low relative to ours. Consequently, they can come in here with a price structure that is substantially different than ours.

Representative RICHMOND. In other words, their cost of capital is cheaper, their margin of profit is lower because they don't have to show those large profits because they don't have stockholders and dividends like we have.

Mr. SCALISE. That's right.

Representative RICHMOND. Because they use mostly debt where we use equity, right?

Mr. SCALISE. Right. Consequently, you become very, very competitive over a long period of time and you invest a lot of money and you can make it very difficult for those of us who have to earn our capital and generate from our profits the additional capital you need to expand these companies.

Representative RICHMOND. Do you think the new tax plan is going to materially help your industry?

Mr. SCALISE. We think that it's a step in the right direction. There are some additional things that are required from a depreciation standpoint, to improve on that. The R. & D. tax credits are very important. The contribution to universities—we do need more engineers. One of the points that was made here earlier about more engineers coming out of the Japanese versus—it's true. They're graduating about 50 percent more than we are today. Whether it's quality or quantity, nonetheless, more is important. We have got to graduate more engineers. We've got to make it more attractive for professors at universities to stay at the universities rather than coming into industry.

So we have to look at all of these areas.

Representative RICHMOND. As you know, we're falling behind and we're up to our total capability in engineering schools throughout the United States. Every engineering institution in the United States is totally filled with students.

Mr. SCALISE. Yes.

Representative RICHMOND. And we're still well behind the Japanese.

Mr. SCALISE. Well behind. We really have to make a major effort in that area. We've got to make it easy for the universities, for the industries to assist universities to expand those programs. I think it's a very important part of this whole tax package.

Representative RICHMOND. Is your industry working closely with universities?

Mr. SCALISE. Yes, absolutely, and we're interested in moving more in that regard.

Representative RICHMOND. Thank you for coming. Mr. Scalise. We'll take your entire prepared statement and include it in our record. And if you will, we'd like to send you some questions.

Mr. SCALISE. Very good. Thank you.

[The prepared statement of Mr. Scalise follows:]

PREPARED STATEMENT OF GEORGE SCALISE

Mr. Chairman, let me express my gratitude for the opportunity to appear here today and testify on behalf of the Semiconductor Industry Association. My name is George Scalise. I am Senior Vice President, Administration, Advanced Micro Devices, Inc., located in Sunnyvale, California with worldwide sales of $226 million.

You have heard from a variety of witnesses, including Ambassador Brock and Secretary Baldrige, in this series of hearings conducted by the Joint Economic Committee. I shall try to organize my remarks in the context of their statements. My focus will be on the competitive challenge offered by Japan in the high technology sector-integrated circuits, telecommunications, and computers. Our basic problem can be simply stated: How to maintain U.S. technological and market leadership in the face of severe competitive pressure from our trading partner across the Pacific.

After over two years of intensive research by industry analysts, the U.S. Government, and university researchers, the members of the Semiconductor Industry Association have concluded that the most serious aspect of the commercial competition from Japanese companies derives from the structural differences between the economic environments in the United States and Japan. Indeed, these structural differences constitute the greatest threat to the long viability of the U.S. Industry.

It is ironic that this industry, unlike others which have experienced the full force of Japanese export competition, is highly innovative, productive, undergoing rapid growth, and is highly aggressive in international trade and investment. Yet despite these salutary characteristics, the industry faces as serious a set of long term problems in meeting the Japanese competitive challenges as did industries previously targeted by Japan's exports.

Why should one of the most successful American industries—which in a short twenty-five years of existence has parlayed the original Bell Labs invention of the transistor into $8.4 billion of merchant shipments (over 60 percent of the the world market) and $1.8 billion of captive shipments in 1980 and is striving to increase that output to $50–55 billion by 1990—be seriously concerned about its ability to weather the tremendous structural advantages of the Japanese government industry coalition during the crucial years of the 1980's? Why should you be deeply concerned that we succeed in this effort?

To put our industry in perspective in terms of its importance to the U.S. economy, you should realize that the semiconductor is the all-important "crude oil" of the American telecommunications and computer industries, a market that could well reach $500 billion worldwide by 1990. The American semiconductor industry furnishes both the know-how and the crucial circuitry for the advanced communications and data processing industry, which is changing the face of society itself in the more advanced nations in the world. The American industry created all the threshold semiconductor innovations which have made the new era possible—planar process, integrated circuit, silicon gate process, microprocessors, and microcomputers. All of the most advanced process equipment in use in the world today—electron beam, ion implantation, mask making, projection alignment—is of American design.

Not only does American know-how in microelectronics form the basis for the advanced nations of the world converting to a post-industrial society, generating most of the new job creation in the U.S., Japan, and Western Europe, but it also constitutes a major hope for the emerging third world countries—Singapore, Brazil, Israel, Mexico—to mention a few—to develop into a new tier of "advanced countries" producing knowledge-intensive services and products.

And, of overriding importance, American microelectronic technology forms the fundamental basis for the intelligent weapon systems upon which America's future national defense capability must be based.

So the United States at this point in its history, in the summer of 1981, still possesses a national resource of considerable value—the human imagination and creativity which constitute semiconductor technology.

The Semiconductor Industry Association first testified before the Joint Economic Committee in October 1979, when then Chairman of Mostek Corporation, L. J. Sevin, stated that the American semiconductor industry lay on the bullseye of Japan's target industry for the future—the computer industry: Events in the intervening year and a half have merely confirmed the validity of his vision.

Let us examine the antecedents of Japan's structural advantage. During the 1950's and 1960's, the U.S. vacuum tube producers, such as G.E., Sylvania, and Philco-Ford, yielded leadership in the semiconductor industry to a second generation of high technology companies, principally Texas Instruments, Motorola and Fairchild, which in turn spawned a third generation of innovative growth firms, including Intel, Advanced Micro Devices, and Mostek. The American companies produced wave after wave of innovations and energetically marketed the resultant products throughout the world. The American firms not only facilitated the take-off of the new computer industry in the U.S., but also played a key role in creating the high technology sector in the European Economic Community with exports and direct investments in Great Britain, West Germany, France and Italy.

The American companies also sought entry into the Japanese market, stationing the labor intensive assembly processes in Southeast Asian plants to assure labor cost competitiveness, and applying to the Government of Japan to obtain import licenses and permits to establish marketing subsidiaries and manufacturing subsidiaries in Japan, so as to help play a part in getting the nascent semiconductor industry off the ground in that country as well.

Japan's market, although only half the size of the U.S. market, was already visible as the second or third largest market for the future.

But these overtures were countered by Japanese law and the policies of the Ministry of International Trade and Industry. Instead of allowing the U.S. companies to bring their comparative advantage to bear in Japan, through the medium of direct investments, the authorities chose instead to "take the package apart"—to patiently negotiate patents on American semiconductor products and processes over a period of many years and allocate them among the major Japanese companies to preserve the domestic competitive balance for firms such as Nippon Electric, Hitachi, Toshiba, Mitsubishi, and Fujitsu.

In a familiar pattern to that experienced by many other American industries, the Japanese firms adopted the American semiconductor technology and where possible introduced manufacturing refinements.

During this period, Japan was operating under the Foreign Exchange and Foreign Trade Control Law adopted in 1949 after World War II, enabling Japan to rebuild its industries and financial base free of external influences. This law remained fully in effect for many years until reforms made in the last several years and, conceptually, provided that all external economic transactions were "prohibited in principle," so that foreign trade was permissible only as exceptions to the law.

While Japan remained essentially closed, the United States adopted an internationalized world trade posture. However, U.S. companies were able to export only sporadically into Japan. Moreover, with the dramatic exception of Texas Instruments, which obtained permission to manufacture integrated circuits in Japan by applying leverage based on patent rights, no American company was allowed to invest in a semiconductor plant in Japan. In 1960, IBM was permitted to engage in computer production in Japan in exchange for entering into licensing agreements with 13 Japanese companies.

As a consequence, the American based companies were able to achieve only approximately 10 percent of the Japanese market—primarily through sales of integrated circuits which the local firms were not yet capable of producing. By contrast, with substantial protection applied (including a 17 percent tariff), the U.S. industry obtained a 65 percent share in Western Europe.

Early in the 1970's Japan began liberalizing restrictions on imports of, and investment in, computer equipment. Computer duties began to be reduced. Then in 1971, Japan took the significant step which was to lead to their industry's challenge to U.S. leadership in the world semiconductor and computer markets. Realizing the vast potential in many industries of this knowledge-intensive industry, the Japanese government sponsored the promotion of computers through selected Japanese companies which were to develop high-performance computers and peripheral equipment (and later software) to support Japan's entry into worldwide competition. Direct subsidies in the order of $200 million were granted for this effort, but more significant were the cooperative laboratories, carefully orchestrated by the Ministry of International Trade (MIT) and the quasi-government monopoly, Nippon Telegraph and Telephone (NTT).

Significant tax incentives were afforded integrated circuit and computer operations under the government development program:

In addition to normal depreciation, facilities and equipment were allowed to be depreciated in the first year by an amount equal to one-third of the initial book value.

The Government also provided tax incentives to Japanese end-users to promote the purchase of computers.

Research and development tax credits were furnished participating firms for incremental expenditures over a base year.

An important element of this initial government-industry research program was the Very Large Scale Integration (VLSI) program whose mission was to develop processes to manufacture the most advanced integrated circuits by the mid-to-late 1970's. As part of this effort, the latest American process equipment was purchased for detailed evaluation and refinement. The VLSI program terminated in early 1980, having achieved a very significant result: through systematic adaptation of American state-of-the-art products and processes, the Japanese companies closed the technology gap with the American companies for the manufacture of the 16K RAM, a high volume memory chip used in computer systems.

Using their newly obtained innovative parity, the Japanese companies began to increase their exports to the United States in the late 1970's of the 16K RAM's and, taking advantage of temporary imbalances in demand in the U.S. market and operating from a protected home market, used, successively, very low pricing and then, when the threat of antidumping action became apparent, switched to a strategy of supplying product which exceeded specifications to take a 40 percent market share position in the U.S. market in this state-of-the-art commodity product. The U.S. industry "blew the whistle" on two tier Japanese pricing in 1979 and it ceased. The U.S. industry has vigorously focused on quality measures and expended the requisite management energy and scarce capital to neutralize the Japanese companies' temporary advantage in this area by early 1981.

During the 1970's, the American semiconductor companies continued aggressive attempts to penetrate the Japanese market. Under its program of progressive liberalization of the computer and integrated circuit sector, the Japanese Government removed import license controls in 1974 and relaxed the prohibition of foreign direct investments in integrated circuits in 1976.

Nevertheless, the American companies made little headway in their export drive and two post-liberalization attempts at integrated circuit manufacturing joint ventures with Japanese firms—Motorola with Alps, and Fairchild with TDK—were dissolved before the commencement of production.

Traditional commercial trading patterns in integrated circuits in Japan in integrated circuits have been typical of oligopolistic competition. A few major Japanese firms dominate the market (they are also the chose participants in the government development program). These individual vertically integrated firms specialize in integrated circuit products most suited to their final systems; they sell their products to other Japanese producers while procuring the bulk of their other integrated circuit needs from other Japanese producers.

Under this strategy, each of the major integrated circuit producers has been able to reach scale volumes sufficient for international competition with a protected production base. Procurement by the Japanese integrated circuit firms of American integrated circuits traditionally has been limited to state-of-the-art circuits for which no Japanese source exists or sporadic procurement of products for which there is a temporary capacity shortage. One would infer that this controlled procurement environment reflects a deeply ingrained "Buy Japan" attitude carrying over from the pre-liberalization era as a conscious Japanese trade strategy.

An examination of the U.S. Department of Commerce import/export data for the period 1975–1980 shows clearly the efforts of Japan's new-found technological parity in advanced memory products and the continued difficulty of the American companies in expanding their exports into Japan.

According to U.S. Commerce data, Japanese exports of integrated circuits to the United States from 1975–1980 were:

85-821 O - 82 - 7

	In thousands of U.S. dollars
1975	25,650
1976	19,100
1977	39,888
1978	82,753
1979	176,090
1980	296,040

Conversely, U.S. exports of integrated circuits to Japan were:

	In thousands of U.S. dollars
1975	51,780
1976	64,944
1977	53,715
1978	79,081
1979	138,290
1980	113,080

As a consequence, the U.S. industry shifted from a bilateral surplus in integrated circuit trade to a deficit in 1978 which has grown sharply.

To sustain and strengthen its position in the U.S. market, the major Japanese companies—NEC, Toshiba, Fujitsu, and Hitachi—have invested or committed \$200–225 million of direct integrated circuit manufacturing investment in the United States, including a fully integrated VLSI manufacturing plant which NEC plans to bring on stream by 1983.

Through its government's past policy of preventing foreign investment, as opposed to the complete openness of the American economy, the Japanese industry has gotten the jump on the American integrated circuit manufacturers on investment in their respective markets with the exception of Texas Instruments, although Motorola, and my company, Advanced Micro Devices, plan to initiate manufacturing ventures in Japan. Fairchild and Intel are also reportedly contemplating Japanese operation.

There is yet another dimension to the heightening competition for microelectronic technological supremacy between the United States and Japan. This is the dimension of capital formation.

The rapid growth and sophistication of the semiconductor industry is causing firms of both countries to make massive investments in R&D and plant equipment. An SIA study reveals that the American semiconductor industry's investment in plant and equipment and in R&D is currently averaging 28 percent of sales, compared to the U.S. industry average of 7 percent of sales. This percentage has been steadily rising in recent years and the capital investment alone now exceeds internally generated funds for the average American semiconductor firm:

Capital spending relative to internally generated funds

	Percent
1975	45
1976	70
1977	98
1978	112
1979	108

Conversely, the average age of installed equipment declined 25 percent during the period 1975–1979 to 4.4 years and the trend is clearly downward, as the obsolescence rate intensifies.

Although precise data are not available, press accounts indicate that R&D expenditures on capital investments by the Japanese companies are at an even higher rate than that of the U.S. firms.

Where there is an enormous need for capital for both growth in expenditure on equipment and on R&D, the critical determinant in the competition between Japan and the United States is the ability of each economy to provide the rapidly increasing amounts that are required.

In the area of capital formation, studies of the Chase Manhattan Bank and more recently by Professor Lester Thurow of Massachusetts Institute of Technology demonstrate that the Japanese semiconductor industry has a clear structural advantage over the American industry.

The American companies depend primarily on equity issues and retained earnings as their sources of funds, while borrowing only 15-20 percent of required funds to make the transaction to more capital intensive operations.

The American company's cost of capital is on average 17.5 percent and their rate of return marginally covers this high rate.

The Japanese industry handles its capital requirements differently. It is infused, Thurow reports, with a massive amount of debt (up to 95 percent) indirectly lent by the government through the medium of the controlled city banks. The heavy debt leverage of the Japanese firms yields a cost of capital of only 9.3 percent but the close interlocking industry-bank-government relationship enables the companies to expand despite failing to cover their capital cost, earning a return of only 7.5 percent.

The long-run implications of the structural disadvantages under which the American semiconductor companies are operating are becoming clear.

American producers must gain significant access to the Japanese market by the elimination of tariffs, removal of inward investment barriers, and a change in the "Buy Japan" mentality in Japanese procurement. Without vigorous two-way trade, increasing Japanese imports into and investments in the large, open U.S. market, and the difference in the cost of capital would result in a severe degradation in the American firms' profit margin.

The depressed profit margins would limit even further the ability of the American companies to raise the capital required to innovate, expand and modernize. As market share declined and earnings dropped below the cost of capital, many of the American companies would no longer remain viable.

But more fundamentally, the American computer and telecommunications industries and the U.S. Defense establishment would have to rely on foreign sources of semiconductor supply.

U.S. semiconductor companies fully recognize that each company must make the commitment to establish a presence in Japan and to make the effort necessary to penetrate the Japanese market—as the Japanese have been so effective in doing in the U.S. market.

At the same time, we need a recognition of the need for appropriate public policy options which would constitute an effective American response to the structural advantages jeopardizing the long term capability of the industry to compete with the Japanese industry.

The policy recommendations we have selected cover three areas: international trade policy, domestic tax policy, innovation and human resource policy.

INTERNATIONAL TRADE POLICY

Our basic philosophy on trade is that the most rational path to conflict resolution between the U.S. and Japan and its other trade partners is the complete liberalization of trade on an accelerated time table.

The first step in the process of trade liberalization was to propose to the United States Government that the reduction in semiconductor tariffs by the U.S. and Japan to parity at 4.2 percent be accelerated. This initiative was adopted as U.S. policy and Ambassador Brock negotiated an agreement with Prime Minister Suzuki to implement the reduction to 4.2 percent by April 1, 1982 instead of staging to 1987, subject to approval of the Japanese Diet. The U.S.-Japan Economic Relations Group, (the Wisemen's Group) chaired by Minister Ushiba and Ambassador Ingersoll had endorsed this measure in their December 1980 report.

The next step would be for the U.S. and Japan to agree to eliminate tariffs. This could probably best be accomplished in the context of a broader framework of trade liberalization which could include third countries. The Japan-U.S. Economic Relations Group endorsed the bilateral elimination of semiconductor tariffs. Legislation to give the President requisite tariff reducing authority to permit these negotiations to proceed would be needed.

The agreement would also address freedom of investment, parity in incentives and absence of performance requirements. Acquisitions should be expressly permitted except insofar as anti-trust considerations are involved.

Progress would be monitored on the degree to which markets were fully open.

Government development programs for microelectronic research would be examined to assure that no practices exists which are in violation of international understandings or which prejudice the interests of other countries' producers: access to patents and full participation should be addressed.

Relevant bidding and procurement practices of government agencies would also be monitored to ensure, in the spirit of the MTN government procurement code, the complete opening of covered entities in a timely manner, and to prepare for further opening of public procurement markets.

DOMESTIC TAX POLICY

The Semiconductor Industry Association believes that the 1981 Tax Bill should contain incentives conducive to accelerated research activity throughout industry and academia.

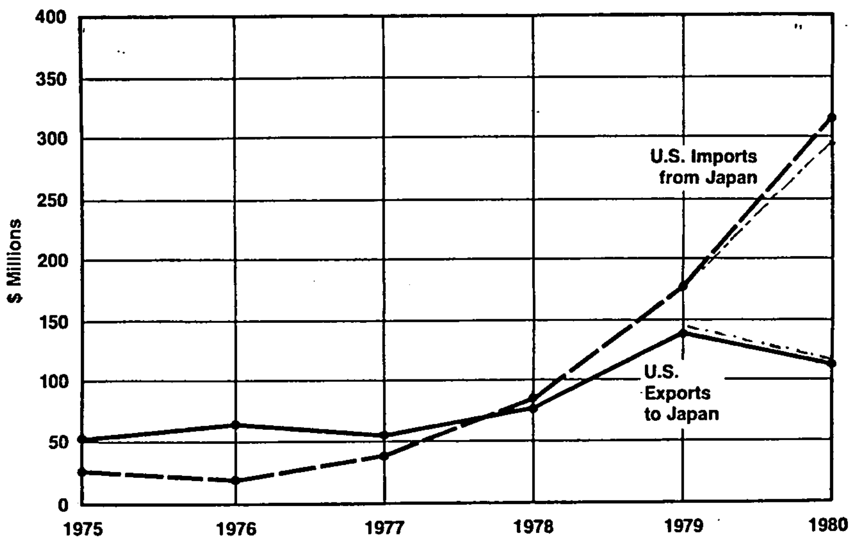
We noted with pleasure that in Secretary Baldrige's testimony before this Subcommittee on June 19, 1981, he strongly emphasized the need for encouragement of R&D in pending tax legislation.

The Administration's tax bill contains a 25 percent tax credit for increases in R&D expenses over a base period, but the provision is limited to wage and salary expenses. This is an important step in the right direction, but it does not go far enough in providing an effective incentive for R&D. To put this point in perspective, it is important to recognize that the depreciation formula in the Administration's tax bill does not provide tax reduction for most high technology companies before 1985, taking into account the rapid obsolescence of the equipment used in this industry. Therefore, it is essential that the 25 percent credit apply more broadly to all R&D expenses. Without this type of coverage, we cannot begin to bridge the gap between the United States and Japan in the economic conditions for high technology companies.

INNOVATION AND HUMAN RESOURCES

The Semiconductor Industry Association believes that the concerted efforts of the Japanese Government and industry designed to promote an intense focus and the optimum allocation of resources can bring Japan ahead of the United States in long term research in microelectronics. The Japanese have written their own manual for success. Theirs is not the only path, however. The U.S. industry has been phenomenally successful through entrepreneurial activity and remarkable innovativeness. However, the steady application of increased capital, increased R&D, and greater numbers of graduating electrical engineers pose a substantial challenge which requires a U.S. public policy response. The tariff agreement with Japan marks a beginning. Tax legislation enacted by Congress this summer would be a major step forward. Then we must move to liberalize fully world trade and investment in semiconductors.

U.S./JAPAN TRADE BALANCE (Total I.C.)

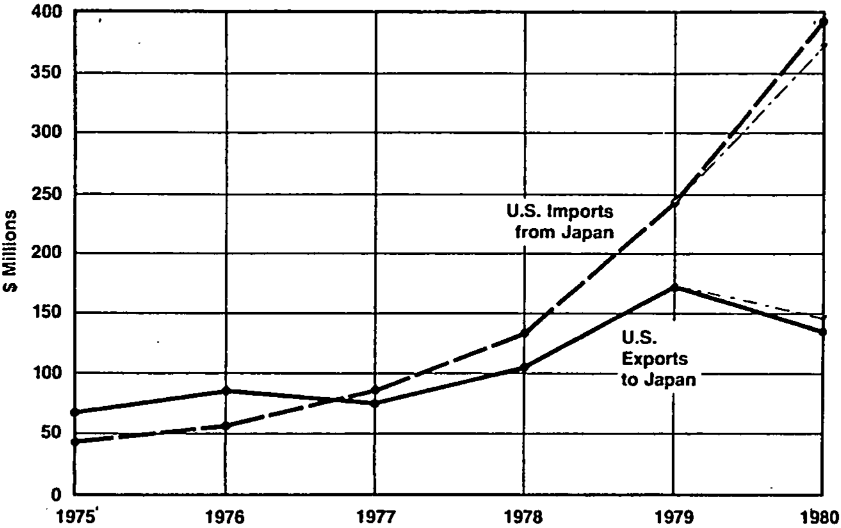


*1980 — First Three Quarters, Actual. Fourth Quarter, Estimate

** [—.—] Shows actual full-year figures for 1980

Data: U.S. Dept. of Commerce

U.S./JAPAN TRADE BALANCE
(Total Semiconductors)

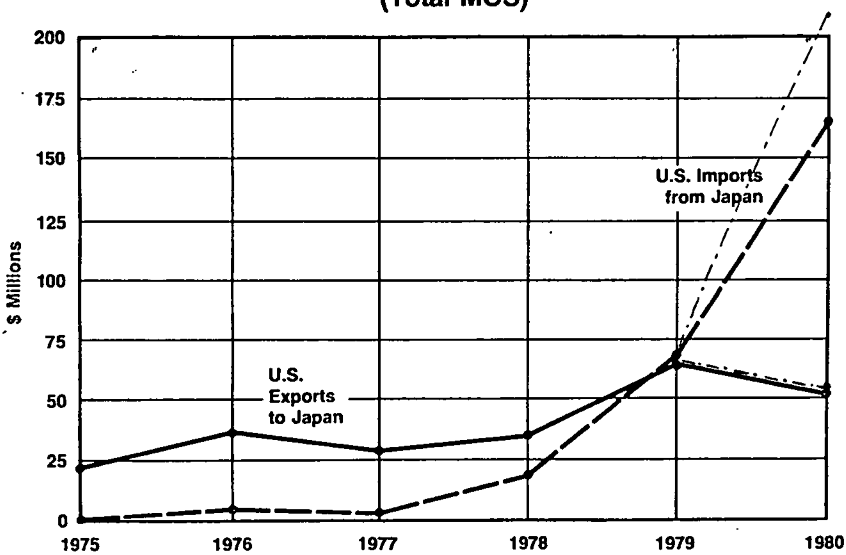


*1980 – First Three Quarters, Actual. Fourth Quarter, Estimate

** [–.–] Shows actual full-year figures for 1980

Data: U.S. Dept. of Commerce

U.S./JAPAN TRADE BALANCE
(Total MOS)



*1980 – First Three Quarters, Actual. Fourth Quarter, Estimate

** [–.–] Shows actual full-year figures for 1980

Data: U.S. Dept. of Commerce

Representative RICHMOND. Do you have anything else you'd like to say?

Mr. SCALISE. No; I think that pretty well covers it. We have all the rest of the details here in the prepared statement and we'll be happy to answer any questions that you may have for us.

Representative RICHMOND. I think we all have to understand how important your industry is. It's the best example I can think of of Japanese competition.

Mr. SCALISE. Well, we appreciate your interest and your concern.

Representative RICHMOND. If you save some cheap money and Government assistance, which we don't have here, they're able to compete because there's no transportation costs at all, right?

Mr. SCALISE. That's correct.

Representative RICHMOND. Here you have a situation where there's double the tariff, no transportation costs, roughly the same labor costs, the same equipment, using American equipment, right?

Mr. SCALISE. That's right.

Representative RICHMOND. So the problem is perhaps their management is, would you say, a little more aggressive than ours.

Mr. SCALISE. I don't know. I'll tell you one thing that I think is very important, is that all of the innovative processes, products, new developments have still been generated by the U.S. industries. Every microprocessing family that exists in the world today outside the consumer arena has been developed, that entire family, the process and the product, by U.S. industries.

So I think that we have been very aggressive in our research and development, in our new process technology, in all of the things that we should be doing to continue to be a very effective, very competitive industry. The structural difference is the thing that will make the problem one that is very difficult for us to overcome.

We're confident that we can do it. With the tax proposals that we have made, I think it's going to help. With the universities improving on the output of engineers, we need more of them, that can help.

Representative RICHMOND. Sure.

Mr. SCALISE. So I think that all of these things have to be done.

Representative RICHMOND. The research and development tax credit also ought to help, I think.

Mr. SCALISE. That's correct. The research and development tax credit is very important.

Representative RICHMOND. What did you say in your remarks that you wanted to correct and I didn't give you a chance? You said that research and development was 27 percent of something in company, and you didn't get a chance——

Mr. SCALISE. I wanted to just check out the numbers that we have. It's in the prepared statement. It's correct here in the statement.

In our company, our research and development amounts to about 11 percent, if I recall correctly.

Representative RICHMOND. You mentioned the figure 27 percent. I thought you wanted to elaborate ou it.

Mr. SCALISE. I'm sorry. "An SIA study reveals that the American semiconductor industry's investment in plant and equipment and in R. & D. is currently averaging 28 percent of sales," not the research and development expense. Plant and equipment and R. & D. is currently averaging 28 percent of sales.

Representative RICHMOND. Plant and equipment and research and development are 28 percent of sales, which is a very, very healthy percent.

Mr. SCALISE. Right.

Representative RICHMOND. You certainly can't be condemned for that.

Mr. SCALISE. No.

Representative RICHMOND. I wish our automotive and steel industries had been putting that much into—well, let's say this.

Mr. SCALISE. U.S. industry is averaging 7 percent in that regard.

Representative RICHMOND. In total, capital and recent growth?

Mr. SCALISE. That's correct. So we are spending at a rate four times the U.S. industry average.

Representative RICHMOND. If U.S. industry had doubled that number, we wouldn't be behind in automotive and steel as we are today.

Mr. SCALISE. Right. But again, I think the crucial point in all this is that we don't minimize the capability of the competition. We think they're very good, very talented, very aggressive, from every standpoint. We happen to think that we are just as good in every arena, and in the innovative arena, we think we're better. We've demonstrated that time and time again.

Representative RICHMOND. The trouble is we do the innovation and then they're able to ship that same product back to us at a lower cost.

Mr. SCALISE. And when you've got that structural advantage to get all the capital you need and at a lower cost, you can do that. That's the area that we've really got to focus on. We've got to find a way of making our cost of capital and our capital availability more readily available to the industry. That's important. In conjunction with that, we've got to find a way of making the market in Japan more available to these very competitive products that we have that we have available.

Representative RICHMOND. And you assure me that Japanese semiconductor factories are not much different from ours.

Mr. SCALISE. Absolutely.

Representative RICHMOND. Unlike automotive and steel, where we know that they're better.

Mr. SCALISE. I've been through them. They're competitive with ours; they are no better.

Representative RICHMOND. Thanks a million, Mr. Scalise. I look forward to seeing you again.

Mr. SCALISE. Thank you very much.

Representative RICHMOND. Mr. Galster, it's a pleasure to have you here, sir.

STATEMENT OF GEORGE M. GALSTER, VICE PRESIDENT, INTERNATIONAL SALES, CHAMPION SPARK PLUG CO., AND CHAIRMAN, AUTOMOTIVE PRODUCTS EXPORT COUNCIL

Mr. GALSTER. Thank you, Congressman. I really do appreciate this opportunity to present a few comments on the unique problems encountered by the American auto parts industry in trying to compete with the Japanese, both in their home market and in the U.S. market, as well as in oversea markets.

In the interest of time, I'd like to make my oral statement brief and ask that my prepared statement be entered into the record.

Representative RICHMOND. Without objection.

Mr. GALSTER. I'd like to speak to you first as vice president of international sales for Champion Spark Plug Co. You might say that I've had some 52 years experience, personal experience, in contacting the Japanese vehicle manufacturers.

Our company, incidentally, does over $800 million worth of business each year. About half of our spark plug production is sold overseas. Incidentally, we have anywhere from 25 to 40 percent of the spark plug market in most world countries, except in Japan, and there it's probably less than 2 percent, after many, many years of effort.

As you noted earlier, I'm also chairman of the Automotive Products Export Council, which was organized early last year with the encouragement of the U.S. Department of Commerce. Our members, incidentally, include the six largest national trade associations in the United States serving the auto parts manufacturers, their distributors, and their exporting firms.

I should mention that a recent study by the Arthur Anderson Co. indicated that employment in just the manufacturing sector of our industry is estimated to be close to 2 million people.

I'd like to emphasize that our council firmly supports the principle of free interntional trade as long as everyone plays by the same ground rules. However, we believe that there are two major reasons why we find it extremely difficult to compete with the Japanese auto parts industry. Again, I'd like to say that these opinions are expressed while giving due recognition to Japanese management, their work ethic, and quality consciousness.

The first point I'd like to make is that the Japanese vehicle manufacturers—and I think this is well known—have established very strong family relationships with most of their parts suppliers. These consist of interlocking directorships and equity positions, all under the aegis of the central bank's traditional practice of selective access to credit. I think the previous testimony indicated that.

This has resulted in a highly nationalistic, inbred, protected, and virtually inpenetrable vehicle manufacturer-supplier environment in that country.

If I may, I'd like to relate a personal experience which will perhaps illustrate the problem. A few years ago, after many, many months of intense technical effort, our product was finally granted engineering approval for use in a new sports model developed by one of the major Japanese car companies. During a long negotiating session with their director of purchasing, we were told that our prices were not competitive. Now knowing something of the potential publicity value of installing our product as original equipment in this car, in desperation I finally offered 1 year free deliveries. And the offer was turned down. This was in spite of the fact that we had already established local warehouse inventories in Japan, a Japanese technical staff and we were prepared to do the importing through our local sales company, and even invoice in Japanese yen.

The second point I'd like to make is that the Japanese tax laws, which were first enacted in June of 1956 and applied to the auto parts industry, have resulted in an unnatural growth in productivity and price competitiveness of the Japanese auto parts industries in all world markets.

Now while the 1956 measures, and those were generally referred to as the laws concerning provisional measures for development of the machinery industry, while these measures were finally abolished on April 5, 1981, what has been referred to earlier in the testimony this morning, MITI's computer industry policy, plus certain remaining tax measures, remain, we believe, as most effective aids to the Japanese vehicle and vehicle parts industry.

If I may, I'd like to very briefly quote just a couple of highlights from a paper which was prepared by a young lady at the Harvard Law School, the Kennedy School of Government. She says, first of all: "A series of industry promotion laws similar to the machinery promotion laws of 1956 have facilitated extensive intervention in computer industry structure, R. & D. subsidies, and tax structures."

And here is the important part as far as our industry is concerned. She says: "Automobiles," and I might say auto parts, "offer a way to apply the fruits of all of this. Smart industrial machinery such as numerically controlled casting machines or automatic assembly robots are all eligible for special depreciation treatment." I underline the word "special" depreciation treatment.

She goes on: "If capital stock is rolled over continuously, the tax provisions on depreciation alone offer not just an interest-free government loan, but sheltering of income from tax for an indefinite period."

Obviously, this affects bottom line profit and loss statements.

And finally, this last paragraph, last quote, which I think is a beauty. It says: "A car can be a Trojan horse. Ultimately, U.S. buyers of Japanese cars will be supporting the Japanese computer industry."

So we ask, is it any real wonder that our council sees the very great likelihood of another major American industry being emasculated by what we perceive as an overstimulated Japanese competition?

Now for the parts supplier segment of the American automotive industry, it was recently predicted that we're looking at a loss of possibly some 400,000 jobs by 1985.

Thank you for allowing me to present these very brief viewpoints and I'll be glad to try and answer any questions you might have.

[The prepared statement of Mr. Galster, together with an attachment, follows:]

Prepared Statement of George M. Galster

The Automotive Products Export Council, which I am honored to serve as Chairman, was organized early last year with encouragement of the U.S. Department of Commerce. Our members include the six largest national trade associations in the United States serving the auto parts manufacturers, their distributors and exporting firms. Employment in just the manufacturing sector is estimated to be close to two million people.

Our council firmly supports the principle of free international trade. However, for two major reasons, American manufacturers find it extremely difficult to compete with the Japanese auto parts industry in the U.S. and in overseas markets (These opinions are expressed while giving due recognition to the Japanese work ethic and quality consciousness).

1. The Japanese vehicle manufacturers have long established "family" relationships with most of their parts suppliers consisting of interlocking directorships and equity positions, under the aegis of the Central Bank's traditional practice of selective access to credit. This has resulted in a highly nationalistic, in-bred, protected and virtually impenetrable vehicle manufacturers/supplier environment in that country.

A personal experience will help illustrate the problem. A few years ago after many months of technical effort, our product was finally granted engineering approval for use in a new sports model developed by one of the major Japanese car companies. During a long negotiating session with their director of purchasing, we were told that our prices were not competitive. Knowing the potential publicity value of installing our product in this car, in desperation I finally offered one year free deliveries. The offer was turned down!

2. Japanese tax laws, first enacted in June of 1956, have resulted in an unnatural growth in productivity and price competitiveness of the Japanese auto parts industry. (ref. 1.)

While the 1956 measures ("Law Concerning Provisional Measures for Development of the Machinery Industry) was finally abolished on April 1, 1981, MITI's computer industry policy plus certain tax measures (ref. 2.) remain as most effective aids to the Japanese vehicle and vehicle parts industry. Permit me to quote a few highlights from reference 3:

"A series of industry promotion laws, similar to the machinery promotion laws of 1956 . . . have facilitated extensive intervention in computer industry structure, R & D subsidies and tax structures. Automobiles offer a way to apply the fruits of all this. Smart industrial machinery, such as numerically-controlled casting machines, or automatic assembly robots, are all eligible for special depreciation treatment.

"Suppliers of the auto industry use tax breaks . . . an extra 16⅔% initial write-off for many kinds of new machinery . . . plus a bonus 50% over the useful life which . . . means investment costs are recovered faster and investment risk is reduced.

"If capital stock is rolled over continuously, the tax provisions on depreciation offer not just an interest-free government loan, but sheltering of income from tax for an indefinite period.

"A car can be a Trojan horse; ultimately U.S. buyers of Japanese cars will be supporting the Japanese computer industry."

Is it any wonder, gentlemen, that our Council sees the likelihood of another major American industry being emasculated by this stimulated Japanese competition. For the parts supplier segment of the automotive industry, its been predicted (ref. 4.) that we're looking at a loss of 400,000 jobs by 1985.

REFERENCES

1. Japanese Economic Studies; Fall 1974/Vol. III, No. 1 Hirova Uneo and Hiromichi Muto.

2. Peat, Marwick, Mitchell & Company; Telex June 5, 1981.

3. CAR WARS Automobile Regulation, Policy and Strategy in Japan; Ame lia Porges, Kennedy School of Government, April 14, 1980.

4. Arthur Andersen & Co.: Worldwide Competitiveness of the U.S. Automo tive Industry and Its Parts Suppliers During the 1980s, February, 1981.

Attachment.

Observations and Recommendations on U.S. Government Policies in Support of Exports

Introduction

The Automotive Products Export Council (APEC) is composed of staff and corporate members of the major automotive components related trade associations in the United States:

APAA—Automotive Parts and Accessories Association.
ASIA—Automotive Service Industry Association.
MEMA—Motor and Equipment Manufacturers Association.
OAC—Overseas Automotive Club.
SEMA—Specialty Equipment Market Association.
TBEA—Truck Body and Equipment Association.

Organized in 1980 with the encouragement of the U.S. Department of Commerce, APEC represents indirectly the vast majority of American original equipment and aftermarket automotive product manufacturers.

Total employment in this sector of the automotive industry is estimated to be close to 2-million, or slightly more than double that of the vehicle manufacturers; current unemployment is estimated at 13 percent (ref. 1). Chart A implies a permanent loss of about 400,000 jobs in this sector of the industry by 1985 under present economic trends.

APEC is dedicated to promoting exports of United States automotive products.

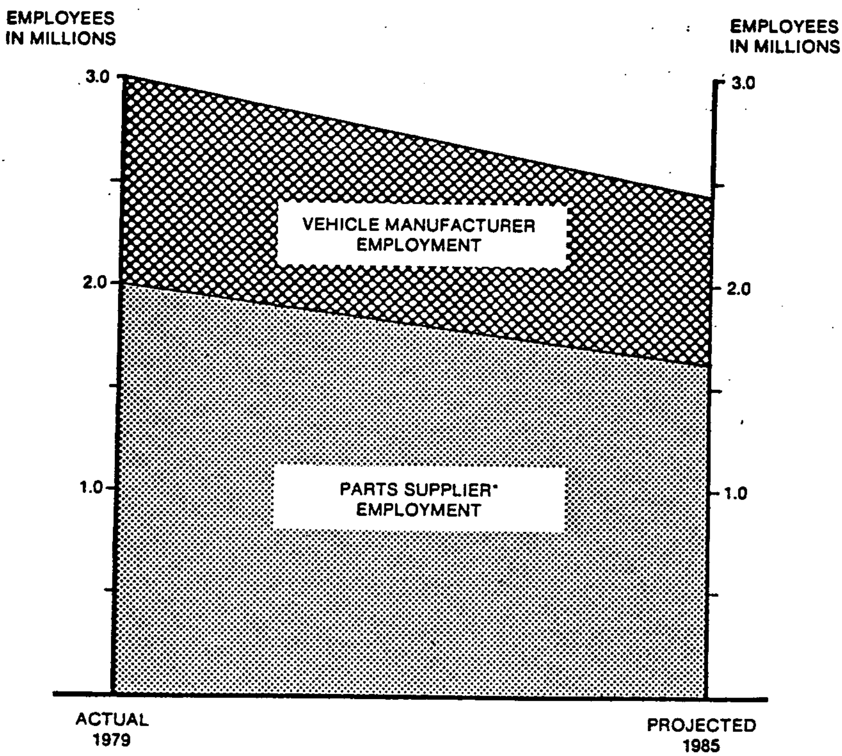
(a) We support the principles of free/fair international trade.

(b) We maintain that U.S. manufacturers can significantly expand export sales only if their domestic business is conducted under "ground rules" equitably applied to their foreign competitors.

Attention is directed to the fact that Japanese vehicle and vehicle parts manufacturers, in particular, have enjoyed unique export incentives which still give them unfair advantages in the U.S. market as well as in overseas markets in general.

CHART A

PROJECTED U.S. EMPLOYMENT FOR U.S. VEHICLE MANUFACTURERS AND PARTS SUPPLIERS



SOURCE: Worldwide Competitiveness of the U.S. Automotive Industry and Its Parts Suppliers During the 1980's; Arthur Anderson & Co., February 1981

* INTERQUARTILE RANGE FOR 1985 PROJECTIONS 2.0-2.3 PARTS SUPPLIER EMPLOYEES FOR EACH VEHICLE MANUFACTURER EMPLOYEE

These incentives, combined with the interlocking "family" relationships existing between the Japanese vehicle manufacturers and their suppliers, make it extremely difficult for the U.S. parts industry to penetrate the Japanese original equipment market and to compete for replacement sales in the Japanese car dealer network.

APEC asserts that inclusion of the auto parts industry in the seventeen industries to be promoted under the "Law Concerning Provisional Measures for Development of the Machinery Industry," enacted in June 1956 (ref. 2) represented unfair trade practice resulting in an unnatural growth in Japanese productivity and price competitiveness. Witness the virtual demise of many key industries in the U.S. and other countries. The U.S. computer industry appears to be the latest addition to Japan's takeover list. (ref. 3)

The special incentives provided to the Japanese motor vehicle and parts industries were numerous, including: (ref. 4, 5, 6)

(a) rapid depreciation allowances for machinery, computers, R. & D. facilities, etc., if they are intended "to help promote the political objectives of the Japanese government". (Quotation from reference 4)

(b) lower corporate tax rates, as low as 33 percent for industries having high export growth potential (ref. 7)

(c) deferred tax charges for "costs involved in developing new markets", and for "overseas technical service transactions" (ref. 4)

(d) selective access to credit (ref. 20)

While the 1956 law was finally abolished on April 1, 1981 (ref. 8), certain tax measures and MITI's computer industry policy remain as "effective" instruments affecting the auto industry (ref. 9).

(The following quoted from ref. 9) "A series of industry promotion laws, similar to the machinery promotion laws of 1956 . . . have facilitated extensive intervention in computer industry structure, R. & D. subsidies and tax structures. Automobiles offer a way to apply the fruits of all this. Smart industrial machinery, such as numerically-controlled casting machines, or automatic assembly robots, are eligible for special depreciation treatment.

"A car can be a Trojan horse; ultimately, U.S. buyers of Japanese cars will be supporting the Japanese computer industry.

"Suppliers of the auto industry use tax breaks . . . an extra 16⅔ percent initial write-off for many kinds of new machinery . . . plus a bonus 50 percent over the useful life which . . . means investment costs are recovered faster and investment risk is reduced.

"If capital stock is rolled over continuously, the tax provisions on depreciation offer not just an interest-free government loan, but sheltering of income from tax for an indefinite period.

"The major tax provision targeted at R. & D. is a tax credit for 20 percent of the increase in R. & D. expenditures over any preceding accounting period . . .

"Tax provisions particularly encourage development of technology for sale abroad. Income from overseas technical services gets a 20 percent reduction".

While giving due credit to the Japanese work ethic and quality consciousness, APEC believes that such incentives continue to be major factors in the unparalleled Japanese penetration of world vehicle markets (70–80 percent of registrations in many Middle Eastern and Latin American countries) and, subsequently, of the auto parts market. Is it any wonder that Toyota's output increased from 46 vehicles per worker in 1970 to 73 vehicles per worker in 1980?

Many countries have recognized the unusual advantages enjoyed by the Japanese vehicle exporters. They have sought to counter-balance these advantages with informal bi-lateral agreements on allowable market shares, by limiting Japanese vehicle imports or by imposing other restrictions. (See Table 1)

TABLE 1.—*Typical protectionist devices limiting Japanese car imports*

Australia	85 percent local content or 58 percent duty; imports limited to 20 percent market share.
France	14 percent[1] duty; Japanese imports limited to 3 percent market share.
Italy	14 percent[1] duty; Japanese imports limited to 2,000 cars per year.
Germany	14 percent[1] duty.
Spain	No Japanese imports allowed.
United Kingdom	14 percent[1] duty; Japanese imports limited to 11 percent market share.
United States	2.5 percent duty.
Canada	14 percent[1] duty with duty drawback determined by purchase value of Canadian-built parts.

[1] Scheduled for reduction to 10 percent in 1985.

The Japanese speak loudly (ref. 10) about the fact that no import duties are levied on vehicles exported to that country. (Duties on spare parts have recently been eliminated). They conveniently, however, ignore the huge protective barriers that were only recently dismantled, and under which their vehicle industry grew to a world dominating position.

TABLE 2.—COMPARATIVE DUTY ON AUTOMOBILE IMPORTS (ref. 6)

	United States (percent)	Japan
1950	10	35 to 40 percent depending on weight or wheel base.
1960	7.5	Do.
1968	5.5	28 to 36 percent depending on weight or wheel base.
1973	3.0	6.4 percent depending on weight or wheel base.
Apr. 1, 1978	3.0	0.
Jan. 1, 1980	2.9	0.
1981	2.5	0.

APEC acknowledges the arguments advanced by the Japan Automobile Manufacturers Association (JAMA) and the Institute for International Affairs of the Council for the Advancement of Consumer Policy (ref. 11 & 12). It also notes that the Institute's studies were funded by a grant from JAMA. These arguments propose that import restrictions would "force the American consumer to pay higher prices for imported and domestic cars . . . and mean higher energy bills for the consumer".

APEC submits, however, that the American consumer is already suffering from Japan's unfair trade practices by the necessity of contributing indirectly to support the unemployed in the U.S. auto and auto supplier industries. In 1980 over 300,000 auto workers were laid off, and another 350,000 to 650,000 people in auto-related industries lost their jobs (ref. 5). Much of this unemployment, APEC believes, can be directly traced to the Japanese "invasion".

APEC also finds the following facts noteworthy:

(a) In spite of the elimination of Japanese import duties, the delivered prices of foreign vehicles in Japan remain significantly high (ref. 13). This is due to the structure of Japan's commodity taxes which exempt exports but are imposed on imports (ref. 20), certification requirements, local distribution methods and other factors. Such practices continue to insulate the Japanese vehicle and parts manufacturers against foreign competition.

TABLE 3.—DELIVERED PRICES COMPARABLE VEHICLES, 1980

[All local taxes paid, Y=$0.0048]

	United States	Japan
Honda Civic 1500 automatic	$7,019	$6,384
Toyota Celica 2000 CT	7,015	8,448
Volkswagen 1600	7,079	10,958
Ford Mustang 2300	7,220	14,208
Cadillac Fleetwood	16,200	40,824

(b) Japanese car manufacturers exercise unusually strong control over their dealers in the U.S. (and in most world markets). This control apparently inhibits dealers from purchasing or stocking replacement parts supplied by independent U.S. Wholesalers or manufacturers. This practice is currently being investigated by the Department of Commerce, Trade Facilitation Committee (ref. 14 and 15)

(c) Japan has long maintained quotas limiting the import of American beef and citrus products. 16,800 metric tons of beef, 45,000 metric tons of orange juice concentrate annually (ref. 16).

(d) Japan currently requires a relatively high content (up to 40 percent) of locally manufactured components for U.S. aircraft licensed for manufacture in that country.

In order for American automotive product manufacturers to compete more effectively in world markets with exporters from nations that openly subsidize or protect manufacturers, the following members of APEC support Duty Remission-Local Content legislation: Automotive Parts and Accessories Association; Automotive Service Industry Association; Overseas Automotive Club; Specialty Equipment Market Association; Truck Body and Equipment Association.

Duty remission—local content

(a) U.S. duties on imported vehicles from the E.E.C. and Japan should be raised to 14 percent based on CIF value. This should be progressively scaled down to 10 percent by 1985.

(b) The absolute value of imposed duties should be remitted to the foreign vehicle manufacturers in amounts corresponding to the value of parts and components manufactured in the U.S.A. and installed as original equipment or purchased for replacements.

Imposition of this duty would be approximately equal to that imposed on U.S. vehicles exported to the E.E.C. It also would partially counterbalance the special incentives enjoyed by the Japanese vehicle and parts manufacturers. The duty and duty remission provisions would place the U.S. market on the same level as our Canadian neighbors.

Since Volkswagen, BMW, and other E.E.C. manufacturers already purchase many parts from the U.S., the arrangement would have minimal net effect on the landed cost of their vehicles. The Japanese, on the other hand, would be highly motivated to implement their oft-repeated promises to purchase more U.S. built components.

Would such legislation significantly raise the price of imported vehicles? Would it limit the choice of American consumers? Would it destroy the imported vehicle dealer organizations? One need only to examine the Canadian experience since 1978 to find an emphatic NO to these questions.

Practically all of the major foreign car manufacturers have taken advantage of the Canadian duty-remission law, including Volkswagen, BMW, British Leyland, Peugeot, Honda, Fuji, Toyota and Datsun. The delivered price of their vehicles in Canada have remained comparable to the U.S. Canadians can still choose the vehicle model of perference. The Canadian imported car dealers and their service organizations remain highly competitive.

What has been the effect on the Canadian parts industry? Sales for both original equipment and replacement sales (to third countries) are estimated as follows:

	Millions
1979 [1]	$30
1980	84
1981 (estimated)	200+

[1] NOTE: Per R. L. Herzstein, former Under-Secretary of Commerce, Japan sold over $1 billion worth of parts in the U.S.A. in 1979.

While the Canadian government is reticent about releasing actual sales statistics, personal interviews with Canadian manufacturing executives have confirmed that the duty remission program has been a most effective tool in expanding their overseas parts sales.

Converting this to a U.S.A. perspective, Japan exported 2,175,111 cars, trucks and buses to this country in 1980 with an approximate C.I.F. value of $9.8 billion. If the Japanese vehicle manufacturers, as expected, would take advantage of a phased-in duty remission/local content requirement, U.S. parts sales could amount to $1.37 billion annually.

Canadian suppliers currently benefiting (or expecting to benefit) from this Duty Remission-Local Content legislation include: A. Berger (precision items, locks); Champion (spark plugs); Dayco (V-belts); Dominion Auto (auto optics); Duplate (window glass); Gabriel (shock absorbers, exhaust systems); G.E. (sealed beams); Tamco (shift levers, struts); Tridon (hose clamps, wiper blades); TRW, Carr Div. (electro-mechanical relays).

Japan, incidentally, traditionally uses "poor quality" as one reason for not using U.S. built products. APEC doubts if Canadian quality is better or worse than American. Indeed, the Japanese manufacturers seem to thrive on proper "incentives!"

A further advantage of the local content requirement would be breaking the stranglehold that the Japanese manufacturers have on their dealer organizations in the U.S. and overseas markets. The use of original equipment U.S. parts and components would enable U.S. manufacturers to compete fairly with their Japanese counterparts throughout the world.

Depreciation liberalization

The U.S.A. lags behind Japan, Germany and other major competitors in annual productivity increases and research development expenditures (ref. 3). This trend emasculates American technology and seriously weakens the competitiveness of our manufactured products in both the domestic and international markets.

Earlier we pointed out the special tax treatment provided by the Japanese government for R. & D. expenditures, technical services and market development overseas.

APEC firmly supports, therefore, President Reagan's proposals for liberalizing depreciation allowances on business investments. While we cannot expect that certain American industrial segments could ever be earmarked for special tax treatment or export incentives as in the Japanese mode, APEC does urge that special consideration be given to those portions of business investment devoted to expansion of exports.

Particularly, APEC points out the extra costs of developing and financing new overseas business, and the expenditures required for engineering and tooling products designed especially for non-U.S. vehicles. It is incongruous that many American manufacturers presently have to purchase such products from overseas suppliers because it is too costly to initiate production here in the home market.

Taxes on Americans working overseas

APEC points out that it is extremely expensive to station an American citizen overseas to promote American exports. The primary reason is that U.S. citizens working in other countries face sharply rising income taxes. Conversely, citizens of our major competitors pay no taxes to their governments on income earned abroad.

It has been estimated (ref. 17) that this tax policy cost the U.S. Treasury nearly $6 billion in revenue in 1980, threw some 80,000 Americans out of work, and "softened" U.S. export sales by 5 percent.

President Carter's report to Congress on export disincentives (September 9, 1980 ref. 18) recognized the damaging results of this tax policy. Unfortunately, his Administration recommended only modest relief for Americans living in "hardship" areas such as the Middle East.

APEC supports the proposition advanced by the President's Export Council (ref. 19) that would exempt the first $50,000 of income for all American citizens employed overseas by U.S. manufacturers or exporters. This exclusion would increase to $60,000 after the second year of residence abroad.

REFERENCES

1. Arthur Andersen & Co.: Worldwide Competitiveness of the U.S. Automotive Industry and Its Parts Suppliers During the 1980s, February, 1981.
2. Japanese Economic Studies; Fall 1974/Vol. III, No. 1, Hirova Uneo and Hiromichi Muto.
3. Technological Leadership: Retained or Lost; Dr. T. F. Jones, United States Industrial Council, Educational Foundation.
4. Taxation in Japan; Peat, Marwick, Mitchell & Company, August, 1980.
5. The U.S. Automobile Industry, 1980; Report to the President from the Secretary of Transportation (DOT–P–10–81–02) January, 1981.
6. United States-Japan Trade: Issues and Problems; Comptroller General of the United States, (ID–79–35), September 21, 1980.
7. Foreign Tax and Trade Briefs; Walter H. Diamond, Principal, Murphy, Hauser, O'Conner & Quinn, Vol. 1, 1981.
8. Peat, Marwick, Mitchell & Company; Telex June 5, 1981.
9. CAR WARS Automobile Regulation, Policy and Strategy in Japan; Amelia Porges, Kennedy School of Government, April 14, 1980.
10. Wall Street Journal (full page ad); September 24, 1980.
11. The Japanese Market; Japan Trade Center, 1979.
12. American Institute for Economic Research; Research Reports Vol. XLVII No. 42, October 20, 1980.
13. U.S.-Japan Trade Issues and Problems; Department of Transportation ID 75–53, September 21, 1979.
14. Senate Small Business Committee hearings, June 25, 1980.
15. Wall Street Journal (R. Herzstein quote); September 22, 1980.

16. Business America; U.S. Department of Commerce, March 23, 1981, Page 6.
17. Chase Econometrics Association (U.S. & Overseas Tax Fairness Committee), 1980.
18. Report of the President on Export Promotion and Potential Export Disincentives; September 1980.
19. Business America; U.S. Department of Commerce, December 1, 1980.
20. The Automobile Industry in North America and Japan; Frank P. Stafford, Economic Outlook USA, Spring 1981, Vol. 8 No. 2.

Representative RICHMOND. You know, Mr. Galster, while Mr. Scalise represents a new industry, you represent an old industry, with which I've been familiar all my life.

Mr. GALSTER. That's right.

Representative RICHMOND. The second company I ever ran was a company called Gear Grinding Machine Company in Detroit, in Hamtramck. We made universal joints.

Wouldn't you say, though, that our basic problem 'n our automotive parts industry is, by and large, that perhaps some of the companies haven't maintained as effective research and development as they should have, as effective equipment as they should have, as effective relations with unions as they should have?

In other words, everything in Japan is done—excellent equipment, excellent plant layout, excellent tool and dye work, excellent labor relations.

I'm afraid in the auto parts industry, I can't say that we've done as good a job.

Mr. GALSTER. I must agree, Congressman. Many of the companies in thousands of suppliers—General Motors has been estimated to have some 32,000 separate suppliers just at General Motors—many of these companies have only 10, 20, 50 or 100 employees. Naturally, they are somewhat limited in the amount——

Representative RICHMOND. No, but take a major company like yours.

Mr. GALSTER. In a major company like ours, it's a great struggle for us. Just this past year we installed six automated assembly machines, each of which ran over a half million dollars. We have to finance that basically ourselves through good cash flow, cash management. We are fortunate in being able to do a great deal of this. But I've been into our competitors' plants in Japan and, as you have seen, the automobile plants in Japan, and I'm always amazed at the degree of automation that they have. They do give good credit to engineering.

Representative RICHMOND. Of course. But who invented the automation?

Mr. GALSTER. In most cases, we did.

Representative RICHMOND. It's our own.

Mr. GALSTER. That's right.

Representative RICHMOND. When I was over there, I saw Cross transfer machines, Baker Bros. transfer machines. We designed the first Baker Bros. transfer machines when I bought the company back in 1949. There was a modern version sitting, looking right at me. It's kind of heartbreaking to think that we Americans have just let this marvelous industrial giant of a country just sort of begin slipping through our fingers.

Mr. GALSTER. If I may, I'd like to echo the previous statements, that it's a matter of financial structure. In many cases, our companies simply have not been able to afford proper investment in R. & D. or in automation.

Representative RICHMOND. What's the depreciation of Champion? Do you happen to know?

Mr. GALSTER. Depreciation of Champion?

Representative RICHMOND. Yes, the depreciation, annual depreciation in your machinery or equipment.

Mr. GALSTER. I'm sorry, I don't have those figures here, Congressman.

Representative RICHMOND. What I mean is how much more in new equipment must you put in in order to stay modern than you have depreciation? In my own company, I find that we have to put in double in order just to stay alive.

Mr. GALSTER. I would guess that it's probably that same proportion.

Representative RICHMOND. A new depreciation plan ought to therefore help your company considerably; right?

Mr. GALSTER. It will help our company and I'm sure that it will help our industry in total, definitely. It's a good step in the right direction.

Representative RICHMOND. And you say that Champion has better than 25 percent of every other foreign market, except Japan?

Mr. GALSTER. Yes, in most major oversea markets, our market share is at least 25 percent, yes, sir.

Representative RICHMOND. Do you have factories overseas or do you do it all in the United States?

Mr. GALSTER. In some cases, we do have local assembly plants which only carry, or only assemble, the more popular types. In the case of Europe, that's the only way that we can maintain an image. So then we're able to bring in American exports.

Representative RICHMOND. Do you have a factory in Japan?

Mr. GALSTER. No, sir. Sales company, sales engineering facilities and a warehouse.

Representative RICHMOND. Have you been thinking of opening a plant in Japan?

Mr. GALSTER. No, sir, we do not perceive that there are any particular advantages in labor costs or anything else. We feel that we are still competitive. Incidentally, we have been successful, again talking about our product, in supplying the product very competitively out of our Canadian operation to car manufacturers such as Honda, Subaru, Fuji, heavy industries, and so on.

Representative RICHMOND. I wonder whether Champion—I know in your testimony you stress the role of the auto industry as a source of great demand for American computers, American advance machine tools. Does Champion buy mostly American machine tools?

Mr. GALSTER. I would say that probably 95 percent of all of our purchases are American. It's pretty much an unstated company policy.

Representative RICHMOND. Except that I note the Japanese have even 25 percent of our machine tool market now.

Mr. GALSTER. I read that same figure, I believe.

Representative RICHMOND. What about replacement parts on Japanese cars here in the United States? I assume a replacement spark plug would then, more than likely, be a Champion.

Are the Japanese exporting spark plugs here in the United States also?

Mr. GALSTER. Yes, sir. They're also assembling some on the west coast. Our product, fortunately, screws into the whole Russian car as well as the Japanese car. That's the standard item. This does not apply in the case of other manufacturers of gaskets, valves, piston rings, and so on, where access to the original equipment market then provides economies of scale which allows, in turn, the manufacturer in turn to supply aftermarket parts.

Representative RICHMOND. Now in the United States, the 27 percent of foreign cars that we have here need spark plugs. Your biggest market here—you're like the razor blade business. Your biggest market is your replacement business right?

Mr. GALSTER. Yes, sir.

Representative RICHMOND. OK. Whose spark plugs do they use, by and large? Do they use American spark plugs?

Mr. GALSTER. Well, for original equipment, at the present time all are equipped with Japanese-made spark plugs.

Representative RICHMOND. When that Japanese car needs new spark plugs, what do they do?

Mr. GALSTER. If the vehicle goes back to the Japanese new car dealer, in most cases he is under enough pressure that he's going to install Japanese spark plugs for replacements. However, if the owner of that Japanese vehicle takes it to an independent garage or tuneup shop, then, of course, we have the environment of a free market, truly, and there again, we're fighting against local American competitors, by and large.

Representative RICHMOND. So you have 2 percent, Champion has 2 percent of the Japanese market?

Mr. GALSTER. If we're lucky.

Representative RICHMOND. What do all spark plug manufacturers put together have of the Japanese market?

Mr. GALSTER. Well, about 97 percent of the Japanese domestic market is supplied by their domestic suppliers.

Representative RICHMOND. In other words, we only have 3 percent of the market, at best.

Mr. GALSTER. The Germans have a fraction of 1 percent.

Representative RICHMOND. Now what percent of the spark plug market here in the United States do the Japanese have?

Mr. GALSTER. On the replacement market, I think the lastest figures would estimate somewhere around 15 percent. Now don't hold me to that because I'm not involved in our domestic sales, but I believe that's a fairly accurate figure.

Representative RICHMOND. So you mean even in the case of spark plugs, 15 percent of all spark plugs in the United States are Japanese because the average spark plug is a replacement spark plug; right?

Mr. GALSTER. That's true; 100 percent of the original equipment are coming in with Japanese spark plugs.

Representative RICHMOND. Sure.

Mr. GALSTER. But then in the replacement field, as the car gets older, naturally there's more of a tendency then to use local products.

Representative RICHMOND. So what's your solution? If you were the Secretary of Commerce and the special trade Ambassador out together, what would you do?

Mr. GALSTER. I was hoping that you perhaps would pick up my previous comment when I said that we supplied original equipment spark plugs to the Japanese car manufacturers out of our Canadian operation. Those are made with Canadian labor. The reason for that is that the Canadians have given a sufficient incentive to the Japanese car manufacturers to use something other than local Japanese parts.

Representative RICHMOND. What have they done?

Mr. GALSTER. They provided a duty remission, local content provision in the Canadian program. This is included, all of the foreign car manufacturers, with one or two minor exceptions, and has resulted in, as I say, our selling spark plugs out of our Canadian operation for original equipment, and also has resulted in many other manufacturers of automotive parts supplying foreign car manufacturers as well.

I could read a list of quite a number of Canadian manufacturers who are benefiting from this duty remission law.

Representative RICHMOND. Duty remission?

Mr. GALSTER. All right. There's roughly a 14-percent duty on the books on all car imports going into Canada from either Europe or Japan. If the car manufacturer so elects, and they've all done so, that duty then is remitted back to them based on the amount of Canadian parts purchased, either for original equipment of for replacement, and either for cars going into Canada or into Third World countries. It's a beautiful arrangement.

Representative RICHMOND. What's that, a type of percentile remission, or how does it work out?

Mr. GALSTER. It works out so that the cars——

Representative RICHMOND. Give us an example in dollars, let's say.

Mr. GALSTER. Well, let's say a vehicle coming into Canada would have a price tag, a landed cost of, let's say, $10,000.

Representative RICHMOND. Right.

Mr. GALSTER. Normally, they would pay 10-percent duty, which would be, what, $1,000.

Representative RICHMOND. $1,000.

Mr. GALSTER. OK, if they buy $1,000 worth of window glass, shock absorpers, or spark plugs from Canada, than that duty, in effect, is not paid. That is remitted back to the manufacturer.

Representative RICHMOND. It's on a 1-for-1 basis?

Mr. GALSTER. Dollar for dollar; right.

Representative RICHMOND. Then that's 100-percent subsidy that you're getting from the Canadian Government. I don't think that that's appropriate, either. Do you? I mean, that's a little overdoing it.

Mr. GALSTER. As I say, it's provided a beautiful incentive for the Japanese to use Canadian-built auto products.

Representative RICHMOND. It seems to me that if they gave them a percentile remission, they'd still have a good incentive.

Mr. GALSTER. Well, we look at it as being a noninflationary program.

Representative RICHMOND. Well, in effect, there's no duty on the car.

Mr. GALSTER. In effect, there's no duty on the car. This is right. Now we realize that such a local content and/or duty remission program probably wouldn't fly in this country simply because, as I understand it, it would go against or be against our GATT commitments. But it's an interesting concept which, as I say, provides an incentive to break down this intense nationalism in Japan.

Representative RICHMOND. Mr. Galster, basically, if you ask me, it's a straight giveaway. Here you have a $1,400 duty on a $10,000 Japanese car and all the Japanese manufacturers have to do is buy $1,400 worth of parts and get the car in duty free.

Mr. GALSTER. That's basically how it works.

Representative RICHMOND. They're stimulating importation of Japanese cars.

Mr. GALSTER. Japanese cars still have to be competitive with other vehicles in the Canadian market.

Representative RICHMOND. Unfortunately, they're all too competitive.

Mr. GALSTER. That's right. But looking at it from the auto parts industry, as I say, it's been a very effective program, more so than we believe the Canadian Government is willing to publicize.

Representative RICHMOND. I think the Canadian Government is giving away its shirt for the program. It doesn't make any sense. But on the other hand, I think that there are many things that our Government can do, such as working out—obviously, right now we're modernizing the depreciation code, which is going to help every industry, including yours, I'm sure.

Mr. GALSTER. Definitely.

Representative RICHMOND. Certainly, if we could figure out how to get money a little more cheaply, it would help.

Mr. GALSTER. Certainly.

Representative RICHMOND. Our administration is firmly tied into the free market concept.

Mr. GALSTER. I agree. But as I say, we've found so much difficulty in trying to break into this family relationship in the auto parts industry.

Representative RICHMOND. Have you been to Japan?

Mr. GALSTER. Many times.

Representative RICHMOND. Have you looked at the Japanese spark plug companies?

Mr. GALSTER. Yes, sir. I visited both major competitors' plants.

Representative RICHMOND. Do they differ from ours materially?

Mr. GALSTER. Materially, no, except that I saw evidence of perhaps greater automation. They do an excellent job in this.

Representative RICHMOND. What type of automation?

Mr. GALSTER. Transfer machinery, primarily, which I guess is your forte.

Representative RICHMOND. What else?

Mr. GALSTER. Processing is basically the same.

Representative RICHMOND. You can't use robots for spark plugs. I don't know what else they're doing.

Mr. GALSTER. Oh, yes, indeed. We do use assembly robots for spark plugs. You've got a lot of bits and pieces to put together. Also, the automatic cold forming of the metal portions is primarily an automated operation.

Representative RICHMOND. But all these techniques we ourselves have in this country, right?

Mr. GALSTER. If our manufacturers can afford them, certainly.

Representative RICHMOND. I'd be interested in knowing what Champion's annual depreciation is and how much they have to invest in new equipment in order to stay competitive, or your industry's?

If you could get back, I'd appreciate it.

Mr. GALSTER. I can furnish that. I don't have that information with me.

Representative RICHMOND. You know, Toyota has this scheme of keeping less than 1 day's inventory on hand. Well, actually, it's more than 1 day's. I physically counted the inventory and found that it was closer to 2 or 3 day's, which is still a lot less than the American industry.

Mr. GALSTER. Yes.

Representative RICHMOND. There's no way we can possibly, with our longer supply lines, ever match that, is there?

Mr. GALSTER. We are doing that by maintaining our own inventory stock in Japan. It's very costly for us, obviously, to deliver 220 spark plugs at 3 in the afternoon on Tuesday and Thursday, but we are doing it.

Representative RICHMOND. Sure.

Mr. GALSTER. Again, the reason in our case is because the original equipment is so influential in the replacement selection, in the replacement brand that is installed later on.

Representative RICHMOND. We have a problem with distance that they don't. As you know, at Toyota City, coincidentally, most suppliers have plants, right?

Mr. GALSTER. That's right.

Representative RICHMOND. Right within a 15- or 20-minute drive from the factory.

Mr. GALSTER. This is correct.

Representative RICHMOND. We in the United States just couldn't possibly do that.

Mr. GALSTER. That's right. It's an extremely difficult thing for parts manufacturers in any outside country to compete.

Representative RICHMOND. I think the answer, Mr. Galster, is a combination of cutting down inflation, making money more available and mainly, I think, getting American management to realize that the party is over.

Mr. GALSTER. I agree.

Representative RICHMOND. And getting the American unions to realize that the party is over and trying to get a day's work out of the union in exchange for the day's pay. But I think that it's something that management and unions have got to learn that we've all got to work together, like the Japanese do.

Mr. GALSTER. All of these elements are certainly important. We wouldn't deny them.

Representative RICHMOND. Thanks so much, Mr. Galster.

Mr. GALSTER. Thank you.

Representative RICHMOND. Mr. John Sodolski, you're going to tell us about electronics, I hope, sir.

Mr. SODOLSKI. Telecommunications, actually, Representative Richmond.

Representative RICHMOND. Thank you, please proceed.

STATEMENT OF JOHN SODOLSKI, VICE PRESIDENT, ELECTRONIC INDUSTRIES ASSOCIATION, ON BEHALF OF THE COMMUNICATIONS DIVISION, ELECTRONIC INDUSTRIES ASSOCIATION

Mr. SODOLSKI. First, thank you for having me here today. I am particularly pleased to be in such good company. The U.S. telecommunications manufacturing industry is the largest in the world, with sales of equipment and systems in 1980 estimated at about $20 billion. We anticipate the U.S. domestic market will double by 1990 and reach about $40 billion and that's probably conservative.

The U.S. market is exactly one-half of the world market. We also believe that the domestic market is growing at a more rapid rate than the world market. In communications technology and quality of equipment, the U.S. industry is a world leader and doesn't lag behind anybody anywhere.

While that assessment may seem rosy, a large market expected to double within the next decade, there are two significant and interrelated problems which confront our industry. On the one hand, the U.S. marketplace, one-half of the world market, is almost totally open to competition from abroad. Because of a series of FCC decisions and related activities, the telecommunications market has been opened broadly to all comers, foreign and domestic. The introduction by the FCC of competition in the telecommunications business is generally considered to be a plus for the American consumer. It has expanded the domestic market considerably.

Because the U.S. market for telecommunications is the broadest, best organized, most homogeneous in the world, it's particularly attractive to foreign manufacturers. There's been a steady growth of foreign competition for domestic purchase of telecommunications equipment and systems.

On the other hand, most of our major trading partners, as a matter of policy, purchase their telecommunications requirements from domestic sources. I want to emphasize "as a matter of policy." This includes most of the nations of Western Europe, as well as Japan. Utilizing their protected home markets for assured, long-term manufacturing contracts and subsidized research and development, foreign manufacturers may price and sell marginally in the world market, especially in the United States.

These closed markets are a matter of growing concern to U.S. manufacturers. Many believe the growing importation of foreign telecommunications equipment from protected markets is threatening to erode the U.S. technology base and lead. Others believe there is evidence that the U.S. domestic marketplace has been specifically targeted for a concerted attack by certain foreign competitors. If U.S. manufacturers are unable to maintain their domestic edge and lose market share to foreign competitors, it will of course be increasingly difficult to compete in the world marketplace. Remember, a good portion of the world market place is de facto closed to American competition already.

What we have is a situation where the U.S. industry is disadvantaged in two interrelated ways: A large and attractive U.S. market, completely open to foreign competition, and a world market in which U.S. exports are hindered by restrictions in some of the larger potential market places.

These problems aren't new. There is a perception, however, that the situation is growing more serious. The amount of foreign telecommunications equipment being imported into the United States is growing. The amount of U.S. telecommunications equipment exported is not growing at the same pace. If the trends continue, at some point during this decade an important segment of U.S. high technology industry, telecommunications equipment and systems, will become less competitve both at home and abroad.

What can be done? Well, some steps have already been taken. In December of last year, the U.S. Government signed an agreement with Japan which promised to open the Nippon Telegraph & Telephone Public Corp. to U.S. equipment. The agreement was widely hailed as a positive step in U.S.-Japanese trade relations and a boon to American manufacturers.

While the market in Japan is large, something over $3 billion annually, it remains to be seen what portion of that market, if any, will be enjoyed by U.S. manufacturers. Our organization would have preferred a much stronger instrument than the agreement that was signed, but since we got it, we're going to do everything we can to make sure that it works.

There is a derivative positive aspect to the NTT agreement. It does offer a model for possible similar agreements with other trading partners. At a minimum, many in our industry feel that there must be "equivalence" of trade in telecommunications products. That is, where our market is open, other markets should also be open. The converse of that view is obvious.

But the problem is a difficult one. Perception of the national interest and national security come into play. Much of this country's influence rests on high technology industry built at considerable cost over the past 40 years. Telecommunications is a major portion of that industry and its continued health and growth is vital to the U.S. economy.

The situation where other industrial nationals assiduously protect their home markets while encouraging their domestic firms to sell aggressively in the United States can't be allowed to continue. Even if there were full "equivalence" of the world marketplace, the United States still would find itself at a disadvantage, but at least the competition would be more fair than it is now.

The Third World marketplace also comes into play. As its domestic base is attacked, the U.S. industry will have a more difficult time capturing a fair share of the Third World market. Similarly, foreign manufacturers from protected markets will price and sell marginally to the Third World.

Finally, many executives in the telecommunications manufacturing industry are dismayed by the trends they see developing. We must be able to compete fairly, freely, not only in the United States, but abroad. Our industry is willing to meet all competitors anywhere, any time, to win any fair competition based on price, or any objective criteria. However, to do that, we've got to be able to meet them on their own ground and we can't do that now. Thank you.

Representative RICHMOND. Can you quantify the telecommunications industry here in the United States—how many dollars are we talking about?

Mr. SODOLSKI. Equipment and systems produced and sold in 1980, about $20 billion.

Representative RICHMOND. $20 billion. That's domestic or what?

Mr. SODOLSKI. Pardon?

Representative RICHMOND. That's domestic?

Mr. SODOLSKI. That's everything.

Representative RICHMOND. Everything. All right, now break that down, exports and domestic.

Mr. SODOLSKI. I'm afraid I don't have those numbers. Just a minute. Let me check my files here. [Pause.]

Telecommunications numbers for exports are a bit difficult to obtain because of the way that they're collected.

Representative RICHMOND. Just give us an estimate. You say the industry is $20 billion.

Mr. SODOLSKI. OK. Well, in 1980, the first 4 months of 1980, imports in 1980 were about $326 million. I'm sorry, imports were $439 million, exports were $326 million.

Representative RICHMOND. So here again, you have a situation of an industry in which we're by far the greatest in the world, where imports have exceeded exports.

Mr. SODOLSKI. That's right.

Representative RICHMOND. It can't be that small if it's a $20 billion industry.

Mr. SODOLSKI. The numbers are wrong.

Representative RICHMOND. Yes.

Mr. SODOLSKI. They're clearly wrong, but they do indicate trends.

Representative RICHMOND. I'm sure that our American exports still exceed American imports on telecommunications.

Mr. SODOLSKI. American exports exceed imports, again for the first 4 months——

Representative RICHMOND. Are we talking about Japan alone or the whole world?

Mr. SODOLSKI. No; this is the whole world. We don't have numbers for Japan.

Representative RICHMOND. It's got to be more than $439 against $326 million.

Mr. SODOLSKI. I know. Our Government does not collect numbers in a manner which yields any decent results.

Representative RICHMOND. Well, your Electronic Industries Association must have the numbers.

Mr. SODOLSKI. We have to depend on Government numbers, unless we can strike a deal with the Japanese and other trading partners, something that we're trying to do right now.

Representative RICHMOND. It's awfully hard for me to ask you intelligent questions when I don't have the parameters, you know.

Mr. SODOLSKI. It's very difficult for us, too. When the NTT agreement was being negotiated, I believe it was the beginning of 1980, I asked the Commerce Department for definitive import numbers from Japan, and export of United States telecommunications to Japan. The numbers, as I recall, were something like $150 million of imports for 1979, $5 million in exports.

In fact, without thinking about it more than 2 microseconds, I knew of contracts that exceeded that $150 million in that year.

Representative RICHMOND. Sure.

Mr. SODOLSKI. So the numbers are wrong. It's just one of the big problems we have—insufficient data base. The equipment is complex. It drops into various categories the way the Government collects numbers and it's obscure. Some fields obscure on purpose.

Representative RICHMOND. Well, clearly, the numbers you gave me can't be correct. With a $20 billion industry, I'm sure the imports and exports are a lot larger. But the fact is, we are importing telecommunications equipment from Japan, are we?

Mr. SODOLSKI. Yes, we are, and the imports are growing far more——

Representative RICHMOND. What type of equipment are we importing from Japan?

Mr. SODOLSKI. Everything from CB radios through satellite Earth stations, including digital switches and transmission equipment, the whole panoply.

Representative RICHMOND. Are those imports growing?

Mr. SODOLSKI. Yes, they're growing very rapidly.

Representative RICHMOND. Are our exports to Japan growing also in this field?

Mr. SODOLSKI. There are essentially no exports to Japan.

Representative RICHMOND. What about that Nippon Telephone deal we're trying to work out?

Mr. SODOLSKI. It has yielded nothing as of this point. There have been several requests for bids on relatively simple kinds of equipment. Whether any American firms have won anything, I don't know. There have been no requests to tender for the more complex equipment.

Representative RICHMOND. As I understood, it's a $4 billion request to bid, isn't it?

Mr. SODOLSKI. I'm sorry.

Representative RICHMOND. The Nippon Telephone deal, it's $4 billion.

Mr. SODOLSKI. Well, the entire procurement of Nippon NTT in 1980 was about $3.3 billion and a lot of that is in things like vehicles, telephone poles, clothing. The market for communications equipment in Japan is probably something between $2 and $2½ billion.

Representative RICHMOND. Do you think we made a mistake in opening up our telecommunications industry to foreign competition while other markets remained closed?

Mr. SODOLSKI. I do, yes.

Representative RICHMOND. Well, it's really the industrial equivalent of disarmament, as it were.

Mr. SODOLSKI. Yes, exactly.

Representative RICHMOND. Unilateral.

Mr. SODOLSKI. The question has come up earlier, what to do. We all define the problem and we worry about it.

Representative RICHMOND. In your case, my problem is that I don't have the numbers. Is there any way you could possibly give me a little better fix on the parameters?

Mr. SODOLSKI. If talks I had with MITI several weeks ago work out, we will get some numbers. But we don't have them now. Our Government doesn't have them.

Representative RICHMOND. It's amazing.

Mr. SODOLSKI. I know it's amazing. But until a very few years ago, no one defined telecommunications as an industry. It didn't seem terribly important 10 or even 7 years ago to collect the numbers in the appropriate categories.

I want to suggest something, though, which might be a possible solution or the beginning of a solution for this problem for our industry, which is different from the previous industries discussed because we're a capital goods industry. That is the investment tax credit.

It's been suggested by several in our industry that it might be efficacious to deny the investment tax credit to goods which are not made in the United States. Much to my surprise, when looking into this, I found that it had been included in the code at one time. In 1971 when Nixon imposed the 10-percent surcharge, in fact, the investment tax credit was denied to non-U.S. equipment. That subsequently was rescinded. But the President still has the authority to deny the investment tax credit to non-U.S. goods.

Representative RICHMOND. I can see denying it to countries where we have a deficit balance of trade.

Mr. SODOLSKI. That's inferentially what I mean, yes.

Representative RICHMOND. I would never deny it to the European Economic Community, where we have a $15 billion positive balance. But in the case of Japan, I think any strategy we can devise to equalize a deficit balance of trade, it would be well worth doing.

Mr. SODOLSKI. Not only that. It does what the investment tax credit is supposed to do, and that is encourage domestic industry.

Representative RICHMOND. Japan is basically closed to our telecommunications equipment, you say?

Mr. SODOLSKI. Japan was, as a matter of policy through last December 19, totally closed to U.S. telecommunications. As a result of the NTT agreement, it has been opened to a degree, but it's yet to be seen what that degree is, if any.

Representative RICHMOND. So here you have *x* billion dollars' worth of Japanese telecommunications equipment coming into the United States.

Mr. SODOLSKI. That's correct.

Representative RICHMOND. But you don't know how much.

Mr. SODOLSKI. No, but it's large.

Representative RICHMOND. Have you got any idea?

Mr. SODOLSKI. This is strictly a guess based on just watching the industry. I would say it's in the neighborhood of $500 million in 1980 and it's probably going to be increased by 50 percent in 1981.

Representative RICHMOND. So you're talking about $750 million worth of Japanese telecommunications coming into our market and literally nothing going the other way.

Mr. SODOLSKI. That's correct.

Representative RICHMOND. It seems to me that your industry ought to start screaming to the Commerce Secretary and Ambassador Brock. They're the only ones that can help you.

Mr. SODOLSKI. Asctually, I'm not sure that the executive branch of our Government can do very much about it.

Representative RICHMOND. But by certainly cutting down trade barriers or by letting the Japanese know that we have to have equalization. I know in the telecommunications industry, we are certainly preeminent in the world. I know that we're efficient. I believe that we have invested enough capital in that industry.

Mr. SODOLSKI. You believe we have?

Representative RICHMOND. I believe that the telecommunications industry is probably healthier as far as capital investment and R. & D. is concerned than many others. Obviously, it's much better than the automotive parts industry.

Mr. SODOLSKI. Yeah.

Representative RICHMOND. It's much more modern and always has been—well, it's always had the backing of Ma Bell. So therefore, it's been able to work on a much higher, much more solid foundation.

Mr. SODOLSKI. Well, the organization of the industry is being discussed for a lot of years and there are some things wrong with it and some things right with it. But the bedrock fact is that our major industrial trading partners have closed markets and ours is open. They penetrate your market from their assured, protected marketplace; R. & D. is subsidized. They can price marginally into our market and take us apart in detail. We don't have those advantages competing in their markets and it redounds to the Third World market, too.

Representative RICHMOND. Of course, the new tax code will help us on R. & D. and on depreciation, which is long past due. I believe it's also up to our Special Trade Ambassador to make sure that trade in this area is a two-way street.

Mr. SODOLSKI. No one would disagree with that. The problem that I see——

Representative RICHMOND. Except that, well, the Ambassador yesterday enunciated a policy of free trade.

Mr. SODOLSKI. Free trade.

Representative RICHMOND. Free trade is wonderful if it's a two-way street, but he didn't say that it has to be a two-way street.

Mr. SODOLSKI. But de facto it's not free trade.

Representative RICHMOND. Exactly. Right.

Mr. SODOLSKI. They're much more closed than ours and something's got to be done about that.

Representative RICHMOND. The Ambassador's policy yesterday was let the free market take over. That's fine if you have free markets on both sides. But if you only have a free market on our side, how can you have a free market?

Mr. SODOLSKI. I agree.

Representative RICHMOND. Well, why don't your industry and other industries get together and try to get our executive branch of the Government thinking straight? We in Congress can't do it.

Mr. SODOLSKI. Oh, I respectfully disagree. I am not sure that the Congress isn't going to be pivotal in this entire high tech import-export question. We have been 4 years working on the NTT agreement and it yielded an agreement which has not yet yielded any sales.

Representative RICHMOND. You know what? And it won't, either.

Mr. SODOLSKI. I'm afraid I probably have to agree with that.

Representative RICHMOND. Sure.

Mr. SODOLSKI. But it's taken all those years. In the meantime, they've expanded their penetration of our market. Another 4 years and we may get another deal. There's very little institutional memory in the U.S. Government. I'm afraid that the Trade Representative's Office in another 4 or 5 years won't remember what happened in the late 1970's, won't remember the promises that were made or the agreements that were signed.

My own personal view is that the Congress is going to have to do something dramatic in one or several areas.

Representative RICHMOND. Like what?

Mr. SODOLSKI. Well, like the possible action on the investment tax credit. To get way out to the extreme, the possibility of closing markets where other markets are closed.

Representative RICHMOND. In other words, saying that the investment tax credit cannot be activated from a country where we have a deficit balance of trade.

Mr. SODOLSKI. Something like that; yes.

Representative RICHMOND. I'm sure that the administration would lobby against that for all it was worth, if you assume that Ambassador Brock's trade policy of yesterday is the administration's major trade policy.

Mr. SODOLSKI. It depends where you start from, how serious one perceives the problem to be.

Representative RICHMOND. I think it's one of the most serious problems that we have because what's our most major problem in the United States? Unemployment. Why do we have unemployment? Unfair competition, among other reasons.

Mr. SODOLSKI. Right.

Representative RICHMOND. That's only one reason, of course.

Mr. SODOLSKI. Let me surface one other possible idea. It's something that I've kicked around for the last 10 years with several FCC chairmen and others—the possibility of whenever the Federal Communications Commission inaugurates a new service, and there were a number of those instances in the 1970's—satellites, cellular mobile systems, special common carriers—they deemed those services to be technologically infant industries and accessible to U.S. equipment only for the first 3 to 5 years.

That would be efficacious and it would be similar to what the Japanese do in their telecommunications systems. Our industry has also thought about the possibility of tariffs. It's been rejected because we are a free trade industry.

Representative RICHMOND. Sure.

Mr. SODOLSKI. But something really must be done to rectify the current situation. Otherwise—we're not an old industry. We're semiconductors. We're relatively new. We're relatively efficient. We nowhere lag behind anybody in technology.

Representative RICHMOND. You're certainly not the automotive industry and you're not the steel industry. I'm convinced that you are efficient and you've got a high degree of research and development. I think your problem is unfair competition.

Mr. SODOLSKI. That's right.

Representative RICHMOND. Unlike the automotive industry, which is their own fault for letting themselves get antiquated, and having very, very bad union relations.

Your problem is mainly the fact that trade is a one-way street

Mr. SODOLSKI. That's right. I keep coming back and saying that the fundamental, bedrock problem is our market is open and theirs is closed.

Representative RICHMOND. I think maybe something we ought to think about is legislation having to do with using the tax credit only on either domestic goods or goods coming from countries where we don't have a deficit balance of trade, or where they don't have these unfair tariff barriers.

Mr. SODOLSKI. Yes.

Representative RICHMOND. And trade barriers and quota barriers and every other type of barrier.

Mr. SODOLSKI. And since it was already in the tax code, as I unstand it, it would be grandfathered with regard to the GATT and it wouldn't violate the GATT agreement. That's my understanding from several attorneys.

Representative RICHMOND. Mr. Sodolski, thank you very much.

Mr. SODOLSKI. Thank you.

Representative RICHMOND. Mr. Galster, we'd like to keep the record open for about 2 weeks and send you some more questions to answer. We really appreciate your answers. I think it's been a very productive session this morning.

The subcommittee will stand recessed until Monday, July 13, at 10 a.m., in room 2154 of the Rayburn House Office Building. Our witnesses will be the Honorable John R. Block, Secretary of the Department of Agriculture, and then we have a panel of experts on American agriculture. Thank you.

[Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 10 a.m., Monday, July 13, 1981.]

[The following information was subsequently supplied for the record:]

RESPONSES OF GEORGE M. GALSTER TO ADDITIONAL WRITTEN QUESTIONS POSED BY REPRESENTATIVE RICHMOND

Question 1. What is the size of the two-way trade in auto parts and the size of the trade deficit?

Answer. According to Ward's Automotive Reports and the DOC, there was a $400 million gap in U.S.-Japan auto parts trade from January 1 through April 30, 1981.

We exported $33.7 million worth of car and truck parts, engines and bodies to Japan. We imported $434.4 million of the same items. These statistics do not include assembled vehicles. For previous calendar years:

[In millions of dollars]

	United States exports to Japan	United States imports from Japan
1980	110.0	1,111.6
1979	79.3	1,034.4
1978	72.9	1,107.1
1977	47.0	794.4
1976	53.4	1,221.6
1975	35.4	528.2

Question 2. I understand that the Federal Trade Commission is currently conducting an investigation into Japanese practices in purchasing auto parts for the after market. What is the state of that investigation?

Answer. We understand from conversation with FTC investigators that it is virtually impossible to convince Japanese car dealers to confirm that they are forced to use only parts supplied or sanctioned by the Japanese vehicle manufacturer. Obviously a dealer does not want to risk loss of his valuable franchise.

Dealer service personnel often employ implicit yet effective methods to convince car owners that "the car's performance will suffer," or "the warranty will be voided" if non-factory supplied service parts are installed.

We have suggested to the FTC that this question of warranty be addressed directly to the Japanese vehicle manufacturers or importers. By contrast, U.S.

vehicle manufacturers do not void new vehicle warranties if the owner elects to install non-factory furnished service parts; instead, and rightfully so, they place the individual warranty provisions on the shoulders of the U.S. independent part manufacturer. (See exhibits A and B).

Question 2(a). To what extent have U.S. firms been able to penetrate the American after-market for Japanese cars?

Answer. During the first year or two of new car ownership, Japanese vehicles are most likely to be returned to the dealers for service and maintenance. During this period, the use of American built products is negligible.

As the vehicle grows older and is taken to independent shops for service, or is serviced by the owner, more and more U.S. parts are likely to be used.

The inability to penetrate the Japanese original equipment market, however, prevents many U.S. manufacturers, for reasons of economy of scale, to tool up to supply many parts for Japanese cars.

This situation is similar to and affects the U.S. domestic market as well as overseas markets where Japanese cars often account for up to 80 percent of the vehicle population.

Question 2(b) To what extent have U.S. auto parts firms been able to penetrate the after-market in Japan?

Answer. I can relate only the experience of Champion Spark Plug Company. We have had a local sales subsidiary in Japan since 1971, including our own warehouse, sales force, technical service support and local advertising. We are the leading seller of imported spark plugs in Japan, enjoying approximately 1 percent (one) share of the after-market.

In scores of "open" markets throughout the world, Champion enjoys at least a 25 percent market share. It also is worth mentioning that we supply original equipment plugs to Honda and Subaru cars (from our Canadian plant because of the Canadian duty remission program). Yet none of these Champion-equipped cars are allowed to remain in the Japanese domestic market!

Question 2(c) What role has the Trade Facilitation Committee played in helping open the Japanese auto parts market to American firms?

Answer. In my opinion, this activity has provided the Japanese favorable publicity about their oft-repeated promises to increase U.S. purchases. I am not aware of any significant gains attributable to this activity.

Question 3. Could you please expand on the Canadian duty remission program?

Answer. Essentially, the Canadian duty on imported cars (approximately 14 percent) is remitted to the car manufacturer in proportion to the value of Canadian parts which are purchased. Unlike a conventional local content requirement, this opens the replacement market in third countries. It is an incentive to use Canadian parts. Canadian jobs are being created.

Such a program could immediately be applied in this country utilizing the current 25 percent duty on lightweight truck chassis, and I already have written Mr. W. E. Brock to this effect.

Question 4. What is the status of the recent talks between the Commerce Department and Japan's Ministry of International Trade and Investment with regard to auto parts? Did the roles of the two governments differ in any important way?

Answer. I have no information on this subject.

Question 5. I am also interested in Champion Spark Plugs determination to remain competitive. Could you give me, for example, some figures on investment and depreciation for Champion Spark Plug?

Answer. Champion corporate investment, depreciation, et cetera:

[In millions of dollars]

	1978	1979	1980
(a) Net sales	692.6	806.5	799.8
(b) Research and development costs	7.4	8.4	10.7
(c) Depreciation	14.5	16.2	17.6
(d) Capital expenditures [1]	18.1	20.7	33.0

[1] Capital expenditures were predominantly for replacement and modernization of equipment, very little for plant capacity expansion.

Question 5(a) How automated are you relative to other American or Japanese plants?

Answer. Based on personal tours of our two major Japanese competitor plants about 18 months ago, I judge that Champion automation is at least as extensive as the Japanese.

From the data presented in question 5, it should be evident that Champion's automation program has been rapidly accelerated in recent years making use of the latest advances in technology.

Question 5(b) To what extent will Champion benefit from the differing proposals before the Congress to liberalize depreciation allowances?

Answer. In general terms, any liberalization of depreciation allowances will provide the added funds and economic incentives to encourage us to speed up our on-going program of plant modernization and subsequently improve productivity and quality. This in turn will make our products more competitive in the foreign and domestic markets.

Enclosures: Exhibits A and B.

EXHIBIT A

JULY 11, 1977.

Mr. DAVID L. WALKER,
Director, Automotive Technical Services, Champion Spark Plug Co., Toledo, Ohio.

DEAR MR. WALKER: This has reference to your letter dated May 31 regarding a letter you received from a Cadillac owner pertaining to his experience with Crestview Cadillac of West Covina, California.

It would appear that the statements made to the customer regarding Champion Spark Plugs reflect the personal opinion of an individual rather than the policies and position of Cadillac Motor Car Division. Actually, several months ago we sent a bulletin to all dealers which stated in part, "car owners may elect to use non-genuine GM parts for replacement purposes if they so choose. Of course, the use of replacement parts which are not of equivalent quality to new, genuine GM parts may impair the effectiveness of emission control systems. If other than new genuine GM parts are used for maintenance replacements or for the repair of components affecting emission control, the owner should assure himself that such parts are warranted by their manufacturer to be equivalent to genuine GM parts in performance and durability."

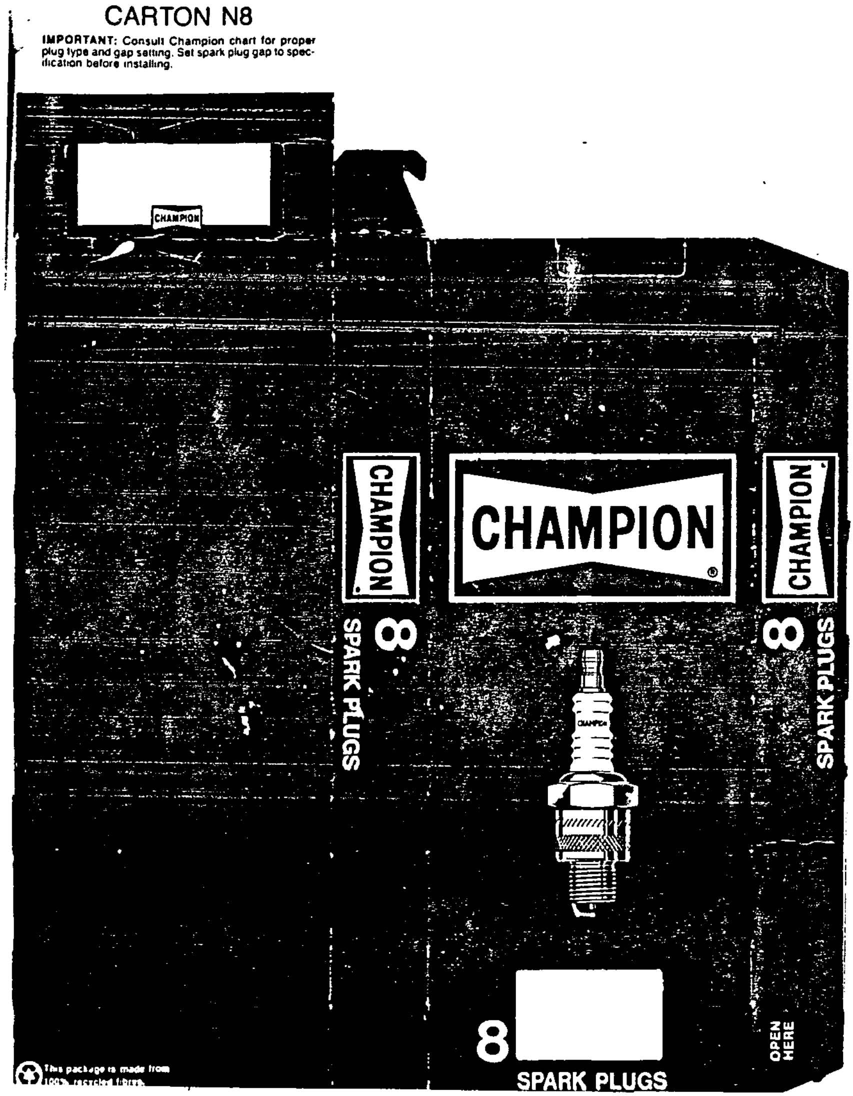
We will, of course, forward copies of the customer's letter to our Los Angeles Zone so they may counsel with the Cadillac dealer and correct any misunderstandings that exist.

Thank you for calling this matter to our attention.

Very truly yours,

A. P. CAPUTO,
Consumer Relations Director.

EXHIBIT B



THE BROOKINGS INSTITUTION,
ADVANCED STUDY PROGRAM,
Washington D.C., August 4, 1981.

Hon. FREDERICK W. RICHMOND,
U.S. House of Representatives,
Longworth House Office Building,
Washington, D.C.

DEAR CONGRESSMAN RICHMOND: I enjoyed very much your comments at the AAAS Seminar on Productivity last week. My own remarks on the semiconductor industry were prompted by something Bill Ouchi said that struck me as slightly misleading. I have reviewed the matter with several colleagues and offer a few clarifying comments here.

The 40 percent market penetration figure mentioned by George Scalise in his testimony before your subcommittee referred to the U.S. market for the 16K random access memory chip, not to the entire U.S. market. The Japanese penetration of the total U.S. market is approximately five to six percent. Nevertheless, the critical issue is, as you rightly pointed out, the future vulnerability of the U.S. semiconductor industry and, in particular, Japanese inroads in the big memory chips now being developed. The 16K random access memory chip shows even more striking penetration of U.S. markets. Although these numbers are somewhat suspect because the market has not fully developed as yet, it appears that Japan may have captured some 70 percent of U.S. sales of the 64K random access memory chip. We must also bear in mind that this is a highly competitive industry and changes can occur rapidly. It appears, for example, that the Japanese share of the U.S. market for the 16K random access memory chip declined from 40 percent in 1978–79 to about 30 percent last year in the wake of a price slashing campaign by American competitors.

Overall, there have been no major changes in world market share from 1978 to 1980. The U.S. held approximately steady at 63 percent of the world market over that period if one includes $1.8 billion in so-called "captive" sales within large U.S. firms (e.g., IBM and Western Electric manufacturing and selling components for their own systems). The U.S. was able to maintain this share by gaining in European markets while losing some home markets to the Japanese. The Japanese gained everywhere in the generally expanding world market (about 22 percent per year) for semiconductors and held steady at about 25 percent of the world market. A significant development over this period is the increased growth of the European market for semiconductors. The Europeans appear to be increasing their use of semiconductors more rapidly than the Japanese, but the Europeans have been unable to hold their own markets. Sales by European firms have increased less than the growth of the European market where both American and Japanese firms have made gains. The European semiconductor industry may face a troubled future if the Europeans cannot compete effectively in their own markets. The major relationships may be summarized as follows:

WORLD CONSUMPTION OF SEMICONDUCTOR SERVICES

[In billions of dollars]

	Amount	Percent
1978:		
United States	4.370	45
Europe	2.380	25
Japan	2.450	25
Rest of world	.500	5
Total	9.700	100
1980:		
United States	6.2	43
Europe	3.7	26
Japan	3.7	22
Rest of world	1.3	9
Total	[1] 14.3	100

[1] Includes 1.8 of "captive" U.S. production (largely IBM and Western Electric).

WORLD SEMICONDUCTOR SALES

[In percent of sales]

	1978	1980
United States	63	[1] 59
Europe	10	12
Japan	26	25
Rest of world	1	4
Total	100	100

[1] With "captive" sales included, U.S. share remains 63 percent.

The major problems for the future include our access to the Japanese market, the long-term competitive advantage to Japanese firms of subsidized low cost

85-821 O - 82 - 9

capital, and our capacity to compete effectively in potential major new markets for the big memory chips. There are also significant structural changes occurring in the American industry. Some component firms may attempt to move into the system business and, in effect, to compete with their own customers. The dynamism, competiveness, and innovative capacity of this industry reflect the workings of a free market, and we should be cautious about forms of government intervention that could erode the strength of the system. I believe that the federal government can play a role in helping to protect the international position on the U.S. semiconductor industry, but it is a responsibility that should be exercised lightly and with discretion in keeping with the competitive framework that now exists.

Your interest in this area, with the broad perspective on business that you bring to bear, is a distinct national asset. I hope that these thoughts may be of some use as you carry forward your work, and I look forward to the chance of discussing these issues with you sometime in person.

Sincerely yours,

BRUCE L. R. SMITH,
Senior Staff.

U.S.-JAPANESE ECONOMIC RELATIONS

MONDAY, JULY 13, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
FINANCE, AND SECURITY ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Frederick W. Richmond (member of the subcommittee) presiding.

Present: Representatives Richmond and Mitchell.

Also present: Betty Maddox, assistant director for administration; and William R. Buechner, Kent H. Hughes, and Marian Malashevich, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE RICHMOND, PRESIDING

Representative RICHMOND. Good morning ladies and gentlemen.

This is a session of the Subcommittee on International Trade, Finance, and Security Economics of the Joint Economic Committee.

Today's hearing is of special meaning to the two potentially most important groups in the U.S.-Japanese trade relations: American agricultural producers and the Japanese consumer. We seldom find a more perfect fit than when these two groups are matched.

Unfortunately for both groups, the benefits of this perfect fit are still potential. The Japanese Government maintains a wall of protection around its 600,000 farmers. This results in the other 109,400,000 Japanese consumers spending a ridiculous and wasteful amount of their income on basic foods.

This unfair and illegal protection of less than 1 percent of Japan's population is politically necessary for the ruling Liberal-Democratic Party, because Japan has not changed the electoral boundaries of its Diet members for 30 years—in other words, for 30 years, Japan has not had a reapportionment. Despite massive population shifts and two rulings of its supreme court to redistrict, those 600,000 farmers have an overwhelming amount of power in Japan's national affairs.

Just 30,000 rural people in Japan elect a Diet member, while in the cities such as Tokyo, Kyota, and Osaka each member represents 300,000 people. Can you imagine what would happen in this country if our voters were told to accept these inequities? Well, you can't imagine it because in our definition of democracy such an absurdity would be swept away by enforceable laws.

But the other 99 percent-plus of Japan's people pay heavily for this absurdity. Through their voting power, Japan's farmers exact a very heavy price with agricultural subsidies and import restrictions. These raise consumer prices to as much as five times more than they would be if American farmers were allowed to freely compete in the Japanese market.

We have the ability in the United States to lower the cost of food for the average Japanese person by 80 percent for staples, such as rice and meat, and to lower the cost of his dairy products and citrus products by at least 50 percent.

For example, we can produce boxed beef and deliver it in Tokyo for $3.50 to $4 a pound, if it was allowed in. Meanwhile, Japanese cattle farmers are subsidized and protected to a level where their own consumers are paying up to $30 a pound. And, we could deliver rice to the Japanese consumer for 40 cents a pound. Right now the Japanese Government is subsidizing rice at $2 a pound. In other words, if the Japanese Government didn't have to subsidize the farmers, this money could be used to balance the Japanese balance of trade deficit operation or put the money into housing, which they so desperately need.

That kind of subsidy and protection punishes the Japanese consumer in more than one way. Not only do they pay through the nose for food, but these supports contribute to a budget deficit that prevents the Japanese Government from serving other needs—such as in housing, which is one of the crying needs in that otherwise well cared-for society.

In the United States, we also pay for Japan's rigid protection of its farmers. Our slaughterhouses could use more work, and our farmers could use more work, and our processors could use more work, and our trade deficit with Japan would be significantly reduced if we were allowed to freely trade these products. We could certainly bring our $10 billion a year negative balance with Japan into neutral. That, in itself, would make important headway in this administration's efforts to control inflation and create jobs for Americans.

Two distinguished members of the administration have commented on this directly during the first 2 days of these hearings. Secretary of Commerce Malcolm Baldrige said:

> * * * in its own national interest and in the interest of better American-Japanese relationships, Japan should improve access to its market * * * highly protective policies still bar foreign competition with some Japanese agricultural products, and illegal quotas on citrus, beef and leather remain serious problems for U.S. agricultural imports.

Ambassador William Brock, our trade representative, was even more direct. He said:

> The phaseout of Japan's restrictions on agricultural imports is in the interest of the Japanese consumers and Japan's overall economic growth—as well as in the interest of American farmers and the U.S. economy.

Well, we all seem to be in agreement on this side of the Pacific. I hope the Japanese consumer is listening, and that he agrees, too. And, just in case they are listening, let's take a look at these charts that tell the story very simply.

1. In Tokyo, a worker puts in 6 hours and 11 minutes to buy 1 kilo of beef. Here in Washington, a worker earns that kilo of beef in 51 minutes. In other words, our American workers can buy a kilo of beef in less than one-sixth of the time it takes the Japanese worker. And

remember we're looking at these comparisons, Washington, D.C., is one of the more expensive places to live in this country.

2. To buy 1 dozen eggs, the Japanese worker puts in 13 minutes. Our local worker buys them with half as much labor.

3. It's the same story, more or less, for each of the seven staples we have analyzed here. The bottom line shows in the last column of the chart the Tokyo worker pays for these staples with more than a day's labor. The Washington worker earns them before his coffee break on Monday morning.

These differences are not explained by gross income inequalities. For example, we also see in our charts that the price per pound of sirloin steak in Japan is five times what it costs in the United States and we see the reason why: Japanese beef production is 3 percent of ours, and is subsidized at a cost that is four to five times our cost per head of production. Beef in Japan is a luxury, but it does not have to be.

As a frequent visitor to Japan, let me add something here. These high food prices are what make Tokyo the most expensive city in the entire world to visit. I'm certain that their tourism is not helped by that reputation. And, how many billions of dollars are lost to their economy because of it?

I raised these examples when I was in Japan recently, and I asked my Japanese friends in government and business: "How long will your citizens tolerate this wasteful burden?" They replied, believe it or not: "Well, we must protect our farmers for security reasons. We don't want our food supply cut off." I told them to face the facts: First, their farmers will never be able to provide self-sufficiency in food—and what they do produce will become less than less efficient, and more and more expensive compared to the rest of their economy.

Second, I reminded them who they were talking to. We are already paying for their defense. Now they're suddenly saying they don't want us to help them with their food problems.

We will put that second point aside for now and bring it back when hearings continue with a concentration on U.S.-Japanese defense relations.

The point today is to find out what the administration intends to do about the obviously unfair and punitive restrictions placed by the Japanese on our agricultural trade.

As I pointed out a moment ago, we are all in agreement about the problem. What, and when, precisely, are we going to do something about it?

We have the most efficient and productive agricultural sector the world has ever known, and it is what we do the very best in our entire economy. The Japanese cannot even begin to argue, as they do when it comes to other industries, that they are competitive in agriculture.

Yet, it's the same old story from the Japanese side: Restrictions, quotas, regulatory malpractice and gross violations of international trade treaties.

Let's see today if we can't bring this home to the Japanese consumer and to the unemployed and inflation-ridden American consumer. Maybe they can do something about it, together.

At this point I would like to mention that Representative John H. Rousselot, who will not be able to attend today, has requested that his opening statement be included in the printed record.

[The opening statement of Hon. John H. Rousselot follows:]

OPENING STATEMENT OF REPRESENTATIVE ROUSSELOT

Mr. Chairman, free trade provides low prices to consumers and export opportunities to producers. According to the September 1980 Ways and Means Trade Subcommittee report on U.S.-Japanese relations, food in Tokyo, measured on a composite scale, was 90 percent more expensive than in New York, and 100 percent more expensive than in London. Furthermore, a dollars worth of beef in Tokyo was worth only 32 cents in New York.

Quotas, tariffs, and guidelines shelter Japanese industries as well as Japanese consumers from foreign production. The Trade Subcommittee reports that Japanese consumers, in effect, subsidize Japanese rice farmers $3.6 billion each year.

Import barriers can be erected through a vast array of devices. All impede foreign trade. Japanese consumers lose selection and low prices when competition is restricted, and the American farmer loses market opportunities.

It is my intention that these hearings will lead to the relaxation of Japanese restrictions on U.S. agriculture, a position which will benefit both nations.

Representative RICHMOND. Now I want to call on my good friend and distinguished colleague from Florida, Representative Andy Ireland, chairman of the Export Opportunities and Special Small Business Problems Subcommittee of the House Small Business Committee, as today's opening witness.

Congressman Ireland, if you will excuse me one moment, I just want to acknowledge my gratitude and pleasure at having my colleague, Congressman Mitchell, here, a member of this committee and also chairman of the House Small Business Committee. Do you have anything to say, Congressman Mitchell?

Representative MITCHELL. I thank you for letting me sit in on this. I'm not a member of your subcommittee, but for more than 5 years now I have had a growing concern about our persistent balance-of-trade deficits and I'm trying to get as much information on that as I can—what can be done to eliminate that deficit—and, of course, I'm intensely interested as the House Small Business Committee chairman in what new business opportunities can be presented in terms of international trade.

I thank you, and although I'm not a member of this subcommittee, I thank you for letting me sit in.

Representative RICHMOND. You're certainly welcome.

Representative Ireland, please proceed.

STATEMENT OF HON. ANDY IRELAND, A U.S. REPRESENTATIVE IN CONGRESS FROM THE EIGHTH CONGRESSIONAL DISTRICT OF THE STATE OF FLORIDA

Representative IRELAND. Thank you, Congressman. I am delighted to be here and I'm delighted to also find the chairman of my Small Business Committee here as well, a gentleman who I respect very much and with whom I'm anxious to have an opportunity to discuss this particular matter.

I'm here today to testify on a subject dear to my heart, free trade, and specifically opening up our agricultural trade with Japan.

I transferred this year from the House Committee on Foreign Affairs, Subcommittee on Inter-American Affairs, to the Subcommittee on Asian and Pacific Affairs specifically to give weight to my efforts to open up the Japanese market to frozen orange juice concentrate from the United States.

Today's hearing marks my debut in this present incarnation. But it is just a continuation of my 5-year campaign; thus, while most of what I have to say may be new to some U.S. policymakers, it is an old refrain for my Japanese friends.

Acting on the firm conviction that old melodies are sometimes best, I will plunge ahead as briefly as possible.

To summarize, it has been my contention that Japanese agricultural protectionism, besides being illegal, in that it violates the letter and spirit of GATT, is also bad policy for Japan.

Hard as it may be for us to believe, agricultural, and particularly citrus products, are one area where Japan has shown a real failure of imagination, political courage, economic analysis and entrepreneurial spirit.

As you know, my central Florida district produces the major portion of Florida's 85-percent share of our Nation's frozen orange juice concentrate, and that is quite a bit of juice.

What you may not know, or may not remember, is that prior to the 1940's, there was no such thing as frozen orange juice. There was only the fresh orange, and then only in season. The Florida citrus industry was thus subject to the same risks and fluctuations caused by oversupply and loss of income which plagues the Japanese citrus farmer.

In the late 1940's, the Florida citrus industry had the very same problem now faced by Japan—overproduction of fresh fruit relative to demand. Prices fell and the market contracted. The basic choices for dealing with the problem were then what they are now, either cut back production or expand the market.

Many Florida growers were ready to do what the Japanese Government has done—cut back production. However, courage and entrepreneurial thinking prevailed, and we now have the multimillion dollar citrus industry of this country today.

The applicability of this model to Japan is a key issue which I will get back to in context. But the bottom line for U.S. producers was that they uncovered almost a magic box into which any surplus of fresh fruit could be automatically dropped, and marketed. In fact, Florida now puts 70 percent of its total orange production into frozen concentrate.

Why is this important for United States-Japanese trade relations? The answer is obvious and simple. The Japanese citrus farmer produces an excellent orange known as the Mikan. This orange is excellent when eaten fresh, but is low in sugar-acid ratio, and does not lend itself to juice consumption without blending with, for example Florida orange juice.

The key similarity, which I wish more of our Japanese friends could grasp, is that we, too, have to use more than one type of orange to produce a drinkable blend of juice.

Without getting into too much detail, it is this availability of blend which allows us to store concentrate to mix with oranges otherwise not suitable for frozen concentrate—exactly the Japanese situation. Blending gives us year-round marketability of our product. Opening up the Japanese market to blending means expanding their existing market. There would be no competition under this method between "ours" and "theirs."

Blending would create a market in Japan for their nonmarketable Mikan juice, and at the same time increase the market for our frozen orange juice concentrate.

Faced with the same dilemma solved in the 1950's by our industry, however, the Japanese Government has opted for the plan we rejected—that of cutting back production and, as an adjunct, protectionism against U.S. citrus imports.

As I have stated, this protectionism is illegal, contravening GATT. While the U.S. has made some minute progress after near superhuman effort by the special trade representative in the past few years, the situation is not much changed since I first raised the plan I will discuss again in a moment at a conference in Tokyo in November 1978. And, Congressman, with your permission, I'd like to put the detail of that presentation before the Japanese Diet in the record.

Representative RICHMOND. Without objection, so ordered.

[The information referred to follows:]

REMARKS BY HON. ANDY IRELAND AT THE INTERPARLIAMENTARY SYMPOSIUM, TOKYO, JAPAN, NOVEMBER 13–18, 1978

Chairman Nakao, distinguished guests, it is a pleasure for me to be here in your beautiful country and to have this opportunity to meet with you today.

Chairman Nakao and many of his colleagues in the Diet have been kind enough to visit with me on several occasions in Washington, and I am delighted to be able to return the courtesy. The many hours of frank conversations we had gave me a first hand understanding of some of the problems and concerns of the Japanese people, especially of the citrus farmers. I hope that our visit will prove to be as useful and as informative to some of you here today as those visits were for me.

My topic today is, of course, the citrus question. But before I begin my remarks I would like to offer a little background information about myself and the part of the United States I represent in Congress.

I am from Florida, and my Congressional district is located in the west central part of the state, just south and east of the Tampa-St. Petersburg area. My district is the heart of the so-called "citrus belt", and is the largest citrus producing area in the United States. Prior to my election to the Congress in 1976 I was in the banking business in Florida for over 20 years, and during that time I helped to finance many of those involved in the growth and development of the citrus industry. As a result, I have come to know the citrus industry quite intimately from a financial, technical, marketing, as well as a political perspective. I have had a long and close association with the industry over the years, and I am pleased to count most of its leaders among my close friends.

Therefore, I am especially honored to be here today to share some of their ideas and concerns with you.

My friends, we have a problem! You have a problem, I have a problem, and our two nations have a problem. That problem is, of course, the trade issue and the question of free and unfettered access to each other's markets.

All of us here today recognize that, in the context of the whole series of trade problems at issue between our nations, citrus is only a small part of the problem in terms of the dollar amounts involved. However, as you so very well know from your dealings with my good friend Ambassador Strauss, citrus has become, for the American people, a major symbolic issue whose importance far outweighs its monetary value. Ambassador Strauss and the American people have made citrus an indicator of the willingness of the Japanese government to commit itself to the principles of free and fair trade between friends.

And, speaking quite frankly, even beyond symbolism, citrus is an extremely crucial political question in the United States, as it is here in Japan. It is an issue, perhaps more than any other single one upon which the fate of the multilateral trade negotiations themselves may hinge.

For, as you are aware, the citrus producing states in America, Florida, Texas, Arizona and California, are among the most politically influential in the United States Congress. The combined congressional delegations from these four states make up over 20 percent of the total membership of the House of Representatives, and their eight senators are some of the most powerful in the nation.

However, I did not come all the way to Tokyo to try to frighten anyone or to re-state the obvious. We are all aware of the problem, and each of us has a stake in solving it. My purpose today, and that of my colleagues, is to try to help find that solution. Our two nations and our peoples have been good friends and valued trading partners for too long to let such difficulties jeopardize that relationship. We can and we must settle our difficulties fairly and honorably. But, in all candor, we must settle them quickly.

The Americans are good, decent and understanding people. Some would even go so far as to say we are naive—overly generous and slow to react when others appear to be taking advantage of us. However, once moved to action by an affront, real or imagined, some say that Americans have a tendency to over-react.

Well, my friends, the American people are reacting. They are reacting and reacting strongly to what they see as Japan's unwillingness to compete fairly in world trade.

Let me take just a moment to share with you some of the concerns that my constituents in Florida have and how they see the situation with respect to citrus.

The American government, with the full support of the U.S. citrus industry wants the complete and total elimination of quotas on the importation of fresh oranges, orange juice and grapefruit into Japan. The Japanese growers are demanding that agriculture be separated and treated differently from industrial goods in the discussion of the U.S.-Japanese trade question. This is not possible. They are inextricably linked, as they should be.

The Japanese government recently predicted a trade surplus in the neighborhood of $24 billion, including a potential $10 billion favorable balance with the U.S. Increased agricultural exports to Japan can help to reduce this surplus.

However, the real heart of the matter as far as most Americans are concerned is that the existing quotas on citrus, are quite simply and quite clearly, illegal under GATT. Japan is a great industrial nation and a major economic and political actor on the world stage. The American people cannot understand why Japan fails to abide by its GATT treaty obligations, as the other signers of the treaty do.

The Japanese government has made much of the fact that they have increased the quota for oranges entering the country from 15,000 to 45,000 metric tons per year. Yet, it is important to note, as my constituents point out, that these new quotas represent less than 2 percent of total Japanese orange production, and amounts to approximately 2.5 oranges per person per year. And, in spite of these increases, the price of Japanese fruit remains at the same level and American fruit is still far too high—as much as $1.00 per orange when they are available. The ultimate loser in this whole process is the Japanese consumer, who is forced to pay an artifically high price for a product that should be readily available at a much lower cost.

It is particularly upsetting to the American people that while U.S. citrus exports to Japan under the increased quotas remain at less than 2 percent of Japanese production, Japan has prevailed before the U.S. International Trade Commission with the argument that an attempt by U.S. manufacturers to limit the importation of Japanese color TVs to 62 percent of U.S. production would be unduly restrictive.

Lets look at that again. An agency of the U.S. government has ruled that limiting Japanese imports to 62 percent of U.S. production would be unfair, and yet Japan limits U.S. orange imports to less than 2 percent and feels threatened. Where is the fairness the American people ask us almost daily. And who can blame them?

The Japanese growers have repeatedly said "We are in favor of importing products from the U.S. if they are in short supply". Would then the American people be wrong to apply this very same logic to Japan? Our own domestic manufacturers of automobiles, TVs and electronics can adequately supply the U.S. market, so why, they may ask, should we allow Japanese imports? What should we tell them?

The question my friends, is one of basic fairness, and the American people and the U.S. citrus industry, believe, quite rightly I think, that they are being taken advantage of. The American citrus industry uses Datsun fork lifts in packing houses, its workers drive Toyotas and Subarus, watch Sony TVs, listen to Panasonic radios and tell time with Seiko watches. Yet we cannot sell our fruit in Japan. Our position is, quite simply, that if you wish to continue to do business with us, you must grant us the same access to your market as we grant you to ours.

My friends, the American people are angry, angry at these and other gross inequities that they see taking place in our trade relations. And they are getting angrier by the day. The threat of protectionism is growing in the people and in the Congress, and none of us want that to happen.

There are of course, usually two sides to most problems and you have been kind enough to sit here and let me explain the American side.

Before I go on, I want you all to know that, largely through the efforts of Chairman Nakao, Mr. Higaki and others from the Diet, I am aware of and understand the Japanese side of the problem as well.

Your constituents, the Japanese citrus farmers, are just as upset as my Florida growers. The citrus farmer in Japan has much in common with his American counterpart. They are both brave, aggressive independent businessmen who are willing to take a chance to make a profit. But like most aggressive independent people, they are both strong willed and often stubborn. It is usually difficult to get them to accept a new idea rapidly, especially if they feel that it is being forced upon them from the outside. I appreciate their position and, as a politician I understand your problem, and your relationship to your constituency.

Your people are faced with the problem of overproduction. They fear that an increase in imports would drive them out of business. I understand their concern, but I think that it is unjustified. In the 1940's the Florida citrus industry was facing the very same problem of overproduction. Crop yields far outstripped demand, prices fell, and the market contracted. The basic choices for dealing with this problem were the same then as they are now; cut back production or expand the market. Many Florida growers were ready to do what your government has done—cut back production. However, Florida chose to process its surplus fruit into frozen concentrated juice, thereby opening substantial new markets for its production. This expansion created the multimillion dollar citrus industry of today. Currently, 85 percent of Florida's citrus crop goes into frozen concentrate and the U.S. presently consumes over one billion gallons of Florida concentrated orange juice a year, or 5.5 gallons per year for every man, woman, and child in the country.

Juice processing changed the nature of the Florida citrus industry. I firmly and sincerely believe that juice blending, using a mix of American and Japanese concentrated juices, can solve the Mikan growers overproduction problem, and would, at the same time, go far toward resolving the current citrus problem between our nations.

For example, many Japanese citrus leaders have long felt that a major juice blending program would be of enormous benefit to the Mikan growers and Japanese consumers alike. In fact, some felt so strongly about the concept that they were successful in persuading your government to erect a juice blending facility near Tokyo several years ago. This plant has been forced to operate on a restricted basis because of a lack of imported concentrate to blend with the Mikan juice. As you know, pure Mikan juice has a low sugar-acid ratio, which tends to make it unappealing to consumers. However, when blended with imported juices (40 percent U.S. Valencia to 60 percent Mikan) sales records indicate that consumer acceptance has been excellent. The potential for sales in Japan is enormous.

I understand that your citrus farmers are skeptical of these proposals, and believe that once the quotas are removed and American juice begins to flow into Japan, they would be unable to compete with the huge American industry. This is not so. Quite the contrary, it would be the key ingredient in assisting the Japanese growers in solving their overproduction problem, by expanding their market, under their own control with a delicious, nutritious beverage at a reasonable price.

To show how this might be possible I would like to outline a proposal for a joint U.S.-Japanese juice blending program. The plan I offer here today, would, in my opinion, be mutually beneficial to both the Japanese and American citrus growers. At the outset I would like to point out that this proposal has been developed in cooperation with many leaders of the U.S. citrus industry, and they stand willing to offer any assistance which might be necessary.

I will present the plan in general outline form to indicate that this is merely a proposal, and as such, it is flexible and subject to alteration. If there is sufficient interest in the concept, it will then be up to the real experts, the Japanese growers and American processors, to fill in the details after they have had the opportunity to sit down together and discuss the proposal at length.

The purpose of this proposal is to establish the framework for developing a five year test market for product development, consumer testing, and market research for a blend of orange juice from Mikan oranges (or frozen concentrate) and frozen concentrated orange juice from Florida.

What I am suggesting therefore, is a joint U.S.-Japanese juice blending program which would run for a five year period. Most citrus experts believe that there is an enormous potential market in Japan for high quality pure orange juice. It is always dangerous to transpose data from one culture to another, but if for the sake of approximation, we assume that eventually the Japanese may ultimately consume orange juice at or near the same rate as Americans (5 gallons per capita) you can see the potential significance of the market.

Numerically, that would give you a 555 million gallon potential for juice, and if we assume the product to be a 60:40 blend of Japanese to U.S. juice, the Japanese share could be a new market for 333 million gallons of Mikan juice. It would require approximately 67 million 90-pound boxes of Mikans to provide this volume of juice. Last year as you know, total Mikan production was 85 million 90-pound boxes. So you can see my friends, the possibilities are almost unbelievable.

In any event, this proposal would guarantee a fair test of the market with a delicious high quality, reasonably priced product; something that has never been done in Japan before. Once agreed to, the project could guarantee a market for all the surplus production of Mikans for the duration of the experiment. And, most importantly, the project itself would be controlled by the Japanese grower, because the volume of juice produced would be dependent upon the volume of Mikan juice they made available. As the market expanded, they would make more Mikan juice available to be blended.

Once the market was developed (and who is better at market development then the Japanese) it would quickly become a no lose proposition for both sides. The Mikan growers would have a guaranteed market for their surplus product. The Americans would be able to ship larger amounts of juice into Japan without disrupting the market, and the Japanese consumer would get a delicious product which is not now readily available at a reasonable price. Finally, and most importantly, one of the most difficult and divisive issues threatening the future of trade relations between our two nations would be on the road to resolution.

As I see it, the financing of this project will come from three main sources; (1) Florida processors and Japanese growers, (2) existing programs of the U.S. Department of Agriculture, and (3) existing programs of the Japanese Ministry of Agriculture.

The people most directly involved, the Japanese and American citrus producers themselves, would of course, set the terms of the arrangement, including the financing, as they saw fit. However, it would be logical to assume that both the governments of Japan and the United States would be anxious to assist the parties in this project. There is ample precedent for such assistance both from the U.S.D.A. and the Japanese Ministry of Agriculture. In fact, as was noted earlier the Japanese government has already assisted in the construction of processing plants, most of which were constructed with government subsidies for up to ⅓ of the total cost.

The actual implementation of the plan would begin with a determination through product development as to exactly which product (exact blending-ratio, coloring, etc.) should be market tested. Here we would rely almost totally on the Japanese for thier expertise in marketing techniques, knowledge of the local markets, consumer preferences, etc. Additionally, all actual marketing and distribution would be done by Japanese vendors, thus creating a ripple or a multiplier effect for the Japanese economy. The Americans would, in effect, be shipping a raw material only (concentrate) and would not be seeking any marketing or distribution rights. This phase of the project should take approximately 12 months to complete.

The next step would consist of advertising, testing, equipment development and packaging studies. The American citrus industry has much experience in these areas which might easily be adapted to the Japanese market, utilizing Japanese packaging and distribution firms. This phase of the project should be completed in 12 to 18 months.

The final stage would be the actual market testing, including regional product distribution. This period, during which a low-cost high quality product is actually marketed should take approximately 30 months. This will ensure that the product is on the shelf for a sufficient period of time to enable the consumer to become familiar with it, and reassure him that it will be readily available for the foreseeable future.

The total time frame for the project might be shortened from the proposed 60 months if things run smoothly. However, I believe that the 30 month test market period is essential to ensure a fair test of consumer acceptance.

As I see it, the benefits to be derived from this type of cooperative effort are numerous, and I have elaborated on most of them. But I think that it is clear to all of us here today, that our two nations must reach an accommodation on the question of citrus. The stakes are too high for failure. This proposal, if given a fair chance will, I think, provide us with a mutually beneficial way out of the difficult situation in which we now find our two countries.

A successful agreement of this type will go far to reduce the protectionist pressures which are building up in Congress, and will provide our negotiators a calmer, more rational atmosphere in which to successfully conclude, as we must, an overall trade agreement.

Once again, I thank you for the opportunity to share these ideas with you, and I stand ready to work with you in any way that I can to help achieve our mutual goal.

Thank you very much.

Representative IRELAND. Recognizing that their domestic concentrate is inadequate, the Japanese have allowed a minimal increase in imported frozen concentrate during the period 1980–83—from 5,000 tons to 6,500 tons. I would point out that 6,500 metric tons is roughly 1½ days' output for the plants in my district.

The point here is that in terms of United States-Japanese trade relations, the situation is blatantly unfair to us, given the virtually unrestricted access of major Japanese products to our markets. I do not need to bore this subcommittee with the statistics on Japanese electronics, automobile, and other sales in the United States, which we can all quote by heart, nor need I but mention that we are running our usual $10 billion or so trade deficit with Japan.

I will even refrain from getting into the issue of fairness in relation to Japan's failure to assume a greater burden of the cost of defending its strategic, political, and economic interests in the region, not to mention the Japanese homeland itself.

If I have a one-word theme today, and in my efforts with Japan, that word is "reciprocity." They have signed GATT, and it's time they lived up to it. Their quotas on citrus are illegal.

It is also time our Government started insisting, not "negotiating," that Japan live up to its legal obligations, and I can think of no better place to start than a U.S.-Japanese coproduction project on orange juice blending, principally because, no pun intended, this should also be the easiest thing for Japan to swallow.

Here is my proposition: To be palatable to the consumer, the Japanese Mikan frozen orange juice needs at least 40 percent, and preferably 50 percent, mixing with Florida frozen orange juice concentrate.

While it is risky to try to transpose cultural and marketing data from the United States to another nation, particularly an Asian nation, I can think of no less risky area for citrus than Japan.

I can assure you that there have already been sufficient tests by private interests and the Florida Department of Citrus to indicate a favorable market response in Japan, if only we can have the opportunity.

The Florida Department of Citrus has run marketing tests in Japan and helped build juice concentrate plants, but the potential market is smothered by the protective tariff of the quota system.

In addition, I've made a number of trips to Japan to work with private and Government people on this ongoing project. There is support for it in many sectors of the Japanese Government and economy, if only the U.S. Government will supply the final push in the form of a strong and unified position.

So, in sum, I think it's fair to suggest that Japan's usual creative marketing acumen could produce a real interest in the Japanese consumer, who already has a taste for orange juice. To show you the market potential, assuming a Japanese per capita consumption equal to our own, for example, the Mikan orange producers could increase by two-thirds their present production of some 90 million 90 pound boxes per year.

Assuming the worst, that the Japanese increased their juice consumption only modestly, there is still no way the Mikan farmers could lose if the market is opened by a program of blending our concentrate with their juice. As I have said, it isn't ours versus theirs.

So you can see why I have trouble understanding why Japan insists on limiting United States concentrate imports. It is self-defeating—a very strange pose for Japan today. It is a classic case of "think small, stay small." And I'd say, in addition, it's too bad the same fellows who are involved in this decision weren't involved in Toyota and Panasonic.

It is obvious to me that the nub of the problem here is convincing the Japanese Government to give it a try. That's where today's hearing comes in and that's why I am so grateful to Representative Richmond and the subcommittee for the opportunity to describe my plan directly to you, and to Secretary Block, who's testimony I look forward very much to hearing.

I can promise you I plan to discuss this with our new Special Trade Representative, Bill Brock, and with our esteemed colleagues at the State Department. The message will be the same in all instances: We've got to get tougher on Japan in the trade area, but we've also got to be realistic, and not needlessly bullying. Thus, our talks must be constructive and, where possible, demonstrate the clear self-interest for Japan in opening up its citrus markets to us.

Citrus is an excellent place to begin because it would be so easy; precisely because it would cost them nothing. It could only add to their GNP and save the very influential Mikan grower segment of their economy from the ravages of overproduction. At the same time, it would help to bring them into compliance with GATT.

Finally, and frankly, for the past several years, citrus, and particularly frozen orange juice concentrate, has been an indicator of the willingness of the Japanese Government to commit itself to the principles of free and fair trade with the United States.

Representative Richmond, if you have any questions, I would be glad to answer them or submit any other material.

Representative RICHMOND. Representative Ireland, can you give me the parameters of the problem? What's the average consumption of orange juice in Japan and where are they now getting their orange juice? One doesn't notice any particular shortage. They're obviously overpaying for it, but where are they getting it?

Representative IRELAND. It's not only a matter of overpaying for it. The product itself is really not available. There are many mixed drinks using anywhere from complete synthetics to maybe a 10-percent blending in Japan, but they are unpalatable for most Japanese.

Representative RICHMOND. You feel that if the Japanese would just allow the same free trade of our citrus to their country as we do all Japanese products to our country, how much could that affect our citrus growers in the United States?

Representative IRELAND. It would be two things, and I think this is the key, because it helps not only the Japanese Mikan grower but helps the market in the United States.

Representative RICHMOND. But you keep saying along with our concentrate it would be blended with the Japanese orange?

Representative IRELAND. Absolutely. I think the key is the discussion that I had with one of the Japanese agricultural ministers when I said that if the Japanese Mikan grower ever found out that his Government was preventing him from this marketing process, where he could use his Mikan juice all year long, if he ever found out the Government was preventing him from that, he would turn on his Government because if you blend on, say, a 50–50 basis the juice from the United States which makes the product palatable to the Japanese market, the market potential in Japan is so great that the Mikan grower would have to go out and plant more Mikan trees, whereas his Government right now is making him cut them down. And it's one of those things where it can't help but work and the opportunity to try it has no risks for the Mikan grower.

Representative RICHMOND. Now is the Mikan orange comparable in price to the California or Florida orange in the eating orange?

Representative IRELAND. In the eating orange?

Representative RICHMOND. During the season?

Representative IRELAND. During the season, they protect their crop, and do not allow fresh oranges from other areas to come in.

Representative RICHMOND. And how are they priced?

Representative IRELAND. They are priced many, many times more than an orange in the United States.

Representative RICHMOND. So the Mikan farmers are totally subsidized?

Representative IRELAND. Absolutely.

Representative RICHMOND. How many times would you say?

Representative IRELAND. A multiple of two or three times at least.

Representative RICHMOND. So what happens is you're saying that during the season when our oranges are growing the Japanese have to pay 300 percent more for those oranges than if they were in California?

Representative IRELAND. Right.

Representative RICHMOND. The rest of the time they still can't get orange juice because Japan won't allow it in the country?

Representative IRELAND. That's right.

Representative RICHMOND. And we Americans allow $31 billion of overmanufactured electric goods in this country with no restrictions whatsoever. Can you imagine?

Representative IRELAND. Absolutely that's a travesty.

Representative RICHMOND. I'm so glad we have the Secretary of Agriculture here to listen to your testimony.

Congressman Mitchell.

Representative MITCHELL. I just have two questions. In your testimony you refer to the increase in tonnage to 6,500 tons of frozen concentrate. Was that a result of the Strauss negotiations last year?

Representative IRELAND. Right. To give you an idea of the numbers here——

Representative MITCHELL. I want to get at two things. This was the result of the negotiations by Bob Strauss?

Representative IRELAND. Right.

Representative MITCHELL. Does that represent a goal? In other words, is that a goal that he set on that particular line item, or is it just something that developed?

Representative IRELAND. Let me say this, No. 1, it represents a tremendous triumph, on the one hand, but Bob Strauss would join me in saying that it represents a drop in the bucket.

It started out in 1977 that the Japanese, when Bob Strauss began, were allowing a quota of 1,000 metric tons. He was able to increase it in dealings with Mr. Ushiba to 3,000 metric tons. By 1983 it will be up to 6,500 metric tons. But mind you, I have plants in my district that can product 6,500 metric tons in 1 day and that represents an awful lot of hard work to get it to that point.

My point is that it is ridiculous compared to what could be sold in Japan and what it could help—by this juice blending—could actually help the Japanese Mikan grower who, as Representative Richmond mentioned in his opening statement, are a significant factor politically in the LDP in Japan.

Representative MITCHELL. If I could just have one more question, Congressman. If you could achieve this reciprocity with Japan in terms of the citrus industry, what, if any, impact would that have on small businesses in that area? Frankly, I would assume that the frozen concentrated orange juice is pretty much large business, but particularly I'm interested in what—if you achieve this reciprocity, what kind of impact might it have on the small businesses?

Representative IRELAND. Well, I think most Americans would think of the production of citrus concentrate as big business. First of all, the citrus industry is nearly 100 percent small business. They are small growers. Every grower is very generally a small businessman. He's got all the problems that the small farmer in the United States has. He's working on a 100 acre or so average size. He's got all the problems of equipment purchases and all that. He's a small entrepreneur. Many of the concentrate plants and the processors are cooperatives of small farmers and even the very largest is really small business.

Representative MITCHELL. Thank you very much.

Thank you, Representative Richmond.

Representative RICHMOND. Thank you.

Representative Ireland, it's very clear that something has to be done in the area of citrus. It's very clear that the Japanese with 110 million population have an economy equal to ours and they no longer are little brothers. They are equal trading partners. You and I know that if the Japanese were allowed to drink frozen concentrate orange juice which has lots and lots of vitamin C in it and tastes great probably their consumption would equal American consumption.

Representative IRELAND. The market should be 50 percent of the market in the United States.

Representative RICHMOND. Exactly. As you say, let the Mikan farmers grow their oranges, but when the Mikan oranges are not being grown, let us provide the concentrate.

Representative IRELAND. That's right, and the really key point here is that blending is important, and by allowing this concentrate to come in they provide a market for an area that is distressed in their own economy.

Representative RICHMOND. And it would be much healthier for the Japanese people not to drink chemical drinks and synthetic drinks.

Representative IRELAND. Absolutely.

Representative RICHMOND. And just think, we could produce them at a third the cost of the Mikan oranges.

Representative IRELAND. Absolutely.

Representative RICHMOND. Well, your case is well taken, I'm sure. I'm so glad the Secretary is here to hear you. Thank you very much, Representative Ireland.

Representative IRELAND. Thank you, Congressman.

Representative RICHMOND. It's a pleasure to introduce our next witness, the Honorable John R. Block, Secretary of the U.S. Department of Agriculture. Good morning, Mr. Secretary. I'm so glad to have you because you're very much the third link in these hearings. Our first witness was the Secretary of Commerce and the second witness was the special trade representative, Bill Brock. But I think your agency probably can do more to rectify this imbalance in trade than anywhere else because clearly America has a 300 to 500 percent superiority over Japan on consumer prices. Just think, we Americans could cut through that $10 billion deficit and create jobs—with our farmers, with our beef people, with our processors, with our slaughter houses and freezing equipment, and what-not—and still deliver that food to the Japanese at one-fifth the price they are now paying. And we have to look to you and Bill Brock and Malcolm Baldrige to make it possible. So we're anxious to hear from you this morning.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE, ACCOMPANIED BY JOHN CHILD, INTERNATIONAL ECONOMIST, FOREIGN AGRICULTURE SERVICE

Secretary BLOCK. Thank you, sir. It is a great pleasure to join you this morning. I have on my left John Child. John is international economist for the Foreign Agricultural Service and I may call on him to answer some questions of a technical nature.

I appreciate hearing the Congressman just ahead of me and I share many of the concerns that he has, as do you and the subcommittee, I believe. I compliment whoever is responsible for the dramatic display of the great advantage we have in terms of time and cost of food relative to that in Japan. I think that we have a great deal to offer not only to our own industry in this country if we can expand some trade, but it can also be of significant benefit to the Japanese people. If I may, I will read a summary of my presentation and request that my entire prepared statement be included in the record.

Representative RICHMOND. Your entire prepared statement will appear in the record as presented and just take as much time as you would like to summarize it.

Secretary BLOCK. Representative Richmond and members of the subcommittee, I appreciate this opportunity to meet with you to discuss the status of U.S.-Japanese trade relations.

There is little doubt of the importance attached to agriculture trade by both the United States and Japan.

U.S. agriculture is the most productive in the world and a leading growth sector for the entire U.S. economy. Farm exports are growing rapidly and have become a key component in the agricultural sector. This fiscal year, U.S. farm exports are expected to reach $46 billion, 14 percent above last year's record $40.5 billion, and pay for agricultural imports of $18 billion, leaving a favorable balance of $28 billion. This is a trade balance that will come in handy in paying for imports of essential raw materials, manufactured products, and petroleum. Farm exports sustain more than a million U.S. jobs, strengthen the dollar, cut tax costs for farm programs, and stimulate production of food for the benefit of all consumers.

Japan has consistently been the largest single-country market for U.S. farm products since 1964, and we appreciate this. I think we want to make this clear. In 1970, it became the first billion-dollar customer for the United States. U.S. agricultural exports to Japan expanded rapidly in the seventies, reaching $6.1 billion in 1980. Our agricultural trade surplus with Japan in 1980 was $6 billion, reducing the overall trade deficit to about $10 billion.

There are more acres in the United States devoted to production for export to Japan than Japan has available to produce for itself. That's amazing, but it's true.

Japan also benefits from importing U.S. agricultural goods. The cost of producing identical quantities of similar products in Japan would be several times Japan's import bill.

Much of the strength of the agricultural relationship between the United States and Japan stems from U.S. market development work that has been going on for nearly three decades.

Today, the success of these efforts is clearly seen in increased use and sales of U.S. farm products in Japan.

Clearly, the relationship between the United States and Japan is one of interdependence. U.S. farmers need to export and Japan needs to import.

Today, I will try to highlight the structure of our agricultural trade with Japan, examine Japan's agricultural trade policy, and indicate areas in which we would like to see some improvement.

U.S. agricultural exports to Japan cover a wide range of products, from gourmet cheese to cotton, from sunflowerseed oil to papayas. However, in terms of value, approximately 86 percent of U.S. exports are of raw materials, including feed grains, wheat, soybeans, cotton, hides, tallow, soybean meal, and forage crops. The balance of U.S. shipments includes consumer-ready goods, such as fresh and processed fruits, meats, nuts, vegetable oils, and processed foods—the frozen orange juice that we heard about just now.

Japanese agricultural policy has three main objectives—to maximize self-sufficiency, maintain farm incomes at a level equal to urban incomes, and develop secure sources of food supply.

According to Japan's Ministry of Agriculture, Forestry and Fisheries, food self-sufficiency dropped from 90 percent in 1960 to 73 percent in 1978. If imported feed grains, rather than finished livestock products, are counted, the self-sufficiency ratio is estimated at less than 50 percent currently compared with 80 percent in 1960.

85-821 O - 82 - 10

Japan is striving to maintain at least the current level of self-sufficiency. However, rising population and incomes, limitations on the Japanese fish catch, the high cost of protection, westernization of the Japanese diet, and the trend toward gradual implementation of import liberalization measures all work to undercut the goal of raising self-sufficiency, and even maintenance of the current level will be difficult to achieve.

Farm prices in Japan are supported through various mechanisms including support prices, deficiency payments, price stabilization schemes, and import controls.

Partly because of these supports, farm household income in recent years has been on par with or exceeded urban wage-earner income levels.

The Japanese often refer to the "oil shock," the temporary U.S. soybean embargo of 1973, and periodic dock strikes in exporting nations as examples of Japan's vulnerability to cutoffs from foreign suppliers. Therefore, Japan has made an effort to insure foreign food supplies are available for its needs. The United States has played the role of principal supplier, usually accounting for at least one-third of Japan's food and fiber imports. In 1980, the share was 40 percent.

Japan's trade policy is geared to accommodate the objectives of self-sufficiency, maintenance of farm income, and development of secure food supplies. The cornerstone of its policy, the agricultural basic law of 1961, provides for essential elements of support for domestic production and the authority to take action to curb imports if they threaten domestic prices.

As a result of this policy, Japan generally favors the importation of bulk commodities and maintains more restrictions on consumer-ready farm goods.

I believe it is clear that we have done an excellent job with respect to helping meet Japan's own policy objectives on food security, providing over 90 percent of its soybeans, 55 percent of its wheat, and 65 percent of its feed grain requirements in the past decade.

At the same time, in return for secure supplies, we expect Japan to continue to take concrete measures to open its market, particularly for consumer-ready goods such as beef and citrus, following right on the heels of the previous testimony.

As you no doubt are aware, the United States-Japan "Wisemen's Group" recommended that both countries—but particularly Japan—should reduce protection in their farm sectors. Briefly, here is a look at the direction the United States wants to go in improving access to the Japanese market.

Foremost is improved access for U.S. high quality beef, oranges, and orange and grapefruit juice. In the recently concluded Tokyo round of the multilateral trade negotiations, Japan agreed to scheduled expansion of its quota levels for these items.

Basically, we regard the MTN implementation period for increases in the beef, orange, and citrus juice quotas as a time of transition for Japanese agriculture. Therefore, we expect that in the new round of talks on high-quality beef and citrus, scheduled for the latter half of Japan's fiscal year 1982, Japan should come forward with an agreement to liberalize its imports of these items substantially.

With regard to U.S. leather exports to Japan, we are hopeful that Japan will facilitate full implementation of the United States-Japan leather understanding which establishes increased quotas for U.S. leather. In addition, we look forward to an expansion of leather trade when the understanding expires in 1982.

OTHER TRADE BARRIERS ARE TARIFFS

While Japan has made considerable progress in reducing its tariffs over the years, there remain a number of trade-restrictive duties. These and other tariffs should be the subject of government-to-government negotiations.

Plant and animal quarantine regulations restrict the importation of live cattle and a variety of fresh produce. The Japanese have worked with us to resolve some of the problems in the plant quarantine area for such items as papayas and sweet cherries. It would be helpful, however, to obtain a high-level policy commitment by the Japanese to facilitate the resolution of these issues more actively.

HEALTH REGULATIONS

The key problem facing U.S. processed foods in Japan is the Japanese Ministry of Health and Welfare's limitation on the type and tolerances of food additives that may be used on both domestic and imported foods. Emphasis should be placed on obtaining relief on items regarded as safe by international organizations.

JAPANESE RICE PROGRAM

Japan's generous rice support program has had a number of adverse effects on U.S. trade. Clearly, Japan faces a dilemma in overcoming its surplus rice situation. But we feel Japan should make a stronger effort to reduce the effects of its rice policy on U.S. exports. Therefore, the United States will use every opportunity, including annual consultations, to seek further action by the Japanese to reduce the adverse effects of their surplus rice problem.

STANDARDS REGULATIONS

These regulations, which normally are based on domestic industry criteria without the input of foreign suppliers, can be an impediment to trade. For example, Japanese testing methods and strength requirements for construction of plywood—as well as a 20-percent tariff—effectively eliminate a potentially large market for U.S. plywood exports. The U.S. Government and industry are working jointly with their Japanese counterparts to demonstrate the inherent soundness of U.S. plywood. Test data and information have been exchanged, and U.S. samples have been sent to Japan for testing. In April, an industry representative traveled to Tokyo to further the understanding of the U.S. product and testing methods, as well as to learn Japanese practices. We are hopeful that through these efforts we will succeed in working out an agreement with the Japanese Government on plywood standards that will permit the importation of the U.S. product.

There are a number of matters here that are important to the United States and especially, like you point out, Representative Richmond, to the Department of Agriculture, and to our agricultural industry, and I thank you for the opportunity to testify here this morning and discuss these issues with you and I'd be happy to answer any questions you may have.

[The prepared statement of Secretary Block follows:]

PREPARED STATEMENT OF HON. JOHN R. BLOCK

Mr. Chairman and members of the subcommittee, I appreciate this opportunity to meet with you to discuss the status of U.S.-Japan trade relations.

There is little doubt of the importance attached to agricultural trade by both the United States and Japan.

U.S. agriculture is the most productive in the world and a leading growth sector for the entire U.S. economy. Farm exports are growing rapidly and have become a key component in the agricultural sector. This fiscal year, U.S. farm exports are expected to reach $46 billion, 14 percent above last year's record $40.5 billion, and pay for agricultural imports of $18 billion—leaving a favorable balance of $28 billion. This is a trade balance that will come in handy in paying for imports of essential raw materials, manufactured products, and petroleum. Farm exports sustain more than a million U.S. jobs, strengthen the dollar, cut tax costs for farm programs, and stimulate production of food for the benefit of all consumers.

Japan has consistently been the largest single-country market for U.S. farm products since 1964. In 1970, it became the first billion-dollar customer for the United States. U.S. agricultural exports to Japan expanded rapidly in the 1970s, reaching $6.1 billion in 1980. Our agricultural trade surplus with Japan in 1980 was $6 billion, reducing the overall trade deficit to about $10 billion.

American farmers and other U.S. workers in related industries benefit from the large and growing agricultural trade with Japan. It is estimated that one out of three acres harvested in the United States moves into export. Japan alone accounted for about 15 percent of total U.S. agricultural shipments in 1980, meaning that roughly 1 out of 20 acres of U.S. production is exported to Japan. There are more acres in the United States devoted to production for export to Japan (more than 14.6 million) than Japan has available to produce for itself (less than 14 million acres).

Japan also benefits from importing U.S. agricultural goods. The cost of producing identical quantities of similar products in Japan would be several times Japan's import bill. The ample supply of competitively priced, high-quality U.S. agricultural exports has aided in achieving some of Japan's agricultural policy goals, such as boosting farm incomes through the production of livestock products based on low cost imported feed grains. The United States also has been a steady and reliable source of food supplies, providing usual or larger-than-usual quantities of grains and soybeans during the past two decades—even during periods of world supply shortfalls.

U.S. MARKET DEVELOPMENT EFFORTS IN JAPAN

Much of the strength of the agricultural relationship between the United States and Japan stems from U.S. market development work that has been going on for nearly three decades. U.S. market development efforts in Japan began soon after World War II. Severe rice shortages created a need for a substitute, which was provided by the United States in the form of wheat. In 1959, Western Wheat Associates of Portland, Oreg., opened an office in Tokyo, concentrating on developing the Japanese market for U.S. wheat and wheat products. Soon after, several other commodity organizations (soybeans, cotton, citrus, poultry, and feed grains, to name just a few) began to explore marketing possibilities in Japan.

Today, the success of these efforts is clearly seen in increased use and sales of U.S. farm products in Japan. An ongoing program of in-store promotions, baking schools, feeding trials, and technical trade servicing is just one measure of the success U.S. market development has achieved

Clearly, the relationship between the United States and Japan is one of interdependence. U.S. farmers need to export and Japan needs to import.

In order to promote the development of this interdependent agricultural relationship, it is important for both Americans and Japanese to have a better understanding of each other's agriculture and agricultural policy. Today, I will try to highlight the structure of our agricultural trade with Japan, examine Japan's agricultural trade policy, and indicate areas in which we would like to see some improvement.

Despite the barriers to the Japanese market, Japan is a leading importer, with total agricultural imports valued at $17.6 billion in 1980 (Japanese data). Of this amount, the United States supplied $7.1 billion (c.i.f.), by far Japan's largest supplier with a 40 percent import share. U.S. agricultural exports to Japan cover a wide range of products, from gourmet cheese to cotton, from sunflowerseed oil to papayas. However, in terms of value, approximately 86 percent of U.S. exports are of raw materials, including feed grains, wheat, soybeans, cotton, hides, tallow, soybean meal, and forage crops. The balance of U.S. shipments includes consumer-ready goods, such as fresh and processed fruits, meats, nuts, vegetable oils, and processed foods.

JAPANESE AGRICULTURAL GOALS

Japanese agricultural policy has three main objectives—to maximize self-sufficiency; maintain farm incomes at a level equal to urban incomes; and develop secure sources of food supply.

SELF-SUFFICIENCY

According to Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF), food self-sufficiency dropped from 90 percent in 1960 to 73 percent in 1978. If imported feed grains, rather than finished livestock products, are counted, the self-sufficiency ratio is estimated at less than 50 percent, compared with 80 percent in 1960.

Japan is striving to maintain at least the current level of self-sufficiency, with projections for 1990 at 73 percent, hoping to attain its goal through a continuation of a strong program to support domestic production, a slowdown in rapid changes in the Japanese diet, and maintenance of protective trade policies.

However, rising population and incomes, limitations on the Japanese fish catch, the high cost of protection, westernization of the Japanese diet, and the trend toward gradual implementation of import liberalization measures all work to undercut the goal of raising self-sufficiency, and even maintenance of the current level will be difficult to achieve.

JAPANESE FARM INCOME

The Japanese have been more successful in maintaining farm income at parity with urban incomes and developing secure food sources than they have in maximizing food self-sufficiency. Farm prices in Japan are supported through various mechanisms including support prices, deficiency payments, price stabilization schemes, and import controls. Japanese producer prices bear almost no relation to world market prices, and in many instances, are several times higher than world prices.

The example of income support often cited because of its key role in Japanese farm income is that for rice, which currently is supported at $1,400 per ton, three times the world rice price level, and protected from imports by a strict import quota and State trading. Partly because of these supports, farm household income in recent years has been on par with or exceeded urban wage-earner income levels.

SECURE FOOD SUPPLIES

The Japanese often refer to "oil shock," the temporary U.S. soybean embargo of 1973, and periodic dock strikes in exporting nations as examples of Japan's vulnerability to cut-offs from foreign suppliers. Therefore, Japan has made an effort to ensure foreign food supplies are available for its needs through bilateral agreements, diversification of suppliers, investment in the agricultural production of supplier nations, and a liberal import policy for commodities it needs to supplement its own agriculture, such as feed grains and soybeans. The United States has played the role of principal supplier, usually accounting for at least one-third of Japan's food and fiber imports. In 1980, the share was 40 percent.

JAPANESE AGRICULTURAL TRADE POLICY

Japan's trade policy is geared to accomodate the objectives of self-sufficiency, maintenance of farm income, and development of secure food supplies. The cornerstone of its policy, the Agricultural Basic Law of 1961, provides for essential elements of support for domestic production and the authority to take action to curb imports if they threaten domestic prices.

With ready access to imported grains and soybeans and shifting dietary habits, Japan's agriculture over the years has been moving away from the traditional emphasis on grain production toward high-value specialty crops and livestock. Japanese policy has been to endeavor to protect these segments of agriculture—fruits, vegetables, and livestock—while maintaining its remaining grain production with high support prices.

As a result of this policy, Japan generally favors the importation of bulk commodities and maintains more restrictions on consumer-ready farm goods. This largely accounts for the relatively small, but growing, percentage of U.S. exports of consumer-ready products to Japan. It results, for example, in Japan's importing feed grains, but little beef; buying cattle hides, but not much leather; purchasing logs, but a small volume of lumber; and importing leaf tobacco, but few cigarettes.

ACTION FOR THE UNITED STATES

I believe it is clear that we have done an excellent job with respect to helping meet Japan's own policy objectives on food security. The record shows that we have been Japan's most reliable agricultural supplier—providing over 90 percent of its soybeans, 55 percent of its wheat, and 65 percent of its feed grain requirements in the past decade. Even during 1973, the year of the temporary soybean embargo, the United States exported 3 percent more soybeans than in 1972, at a level that was unsurpassed until 1975.

We are well aware of Japan's concern about food security and, therefore, believe that the annual agricultural consultations between the two countries are a key link in our agricultural relationship. At these meetings, we are able to assure the Japanese that we will continue to be a reliable supplier, while the Japanese apprise us of their needs and assure us that they will continue to be a reliable customer.

At the same time, in return for secure supplies, we expect Japan to continue taking concrete measures to open its market, particularly for consumer-ready goods such as beef and citrus.

As you are no doubt aware, the U.S.-Japan "Wisemen's Group" recommended that both countries—but particularly Japan—should reduce protection in their farm sectors. Briefly, here is a look at the direction the United States wants to go in improving access to the Japanese market.

As mentioned previously, most of our access problems with Japan fall in the area of consumer-ready or value-added goods. Because of this and because we believe there is great untapped potential for increased sales of red meats, poultry, fruits, vegetables, and a variety of other foods, we intend to continue to seek improved access in this area.

BEEF AND CITRUS

Foremost is improved access for U.S. high-quality beef, oranges, and orange and grapefruit juice. In the recently concluded Tokyo Round of the Multilateral Trade Negotiations (MTNs), Japan agreed to scheduled expansion of its quota levels for these items. The level of high-quality beef imported under the various beef quotas will increase from 20,800 tons in Japan in fiscal year 1980 to 30,800 tons in 1983; the orange quota will rise from 68,000 tons in 1980 to 82,000 tons in 1983; and the orange and grapefruit juice quotas will grow from 5,000 and 3,000 tons, respectively, in 1980 to 6,500 and 6,000 tons, respectively, in Japan fiscal year 1983.

The U.S. and Japanese Governments agreed in December 1978 to discuss providing an open market situation for citrus and ways to expand the importation of high-quality beef sometime toward the end of Japan fiscal year 1982.

Basically, we regard the MTN implementation period for increases in the beef, orange, and citrus juice quotas as a time of transition for Japanese agriculture. Japanese citrus producers currently are making structural adjustments to deal with overproduction, but we believe that by the end of Japan fiscal year 1983, they will have had adequate time to bring supplies in balance with consumption. Japanese demand for high-quality beef continues to be relatively strong, even though production of leaner dairy beef exceeds consumption at the currently high prices. Therefore, we expect that in the new round of talks on high-quality beef and citrus, scheduled for the latter half of Japan fiscal year 1982, Japan should come forward with an agreement to liberalize its imports of these items substantially.

Apart from the scheduled negotiations on beef and citrus, the U.S. Government is engaged in numerous other efforts to improve access to the Japanese market. In the agricultural area, a number of formal trade barriers remain, including:

Tariffs

While Japan has made considerable progress in reducing its tariffs over the years, there remain a number of trade-restrictive duties, such as the variable levy on pork, the 20 percent duty on leather and plywood, 20 percent or higher duties on certain fruits, and the 33 percent duty on peanut butter (the latter will decline to 27.5 percent by 1987 under the MTN agreement). These and other tariffs should be the subject of government-to government negotiations.

Plant and animal quarantine regulations

These restrict the importation of live cattle and a variety of fresh produce. The Japanese have worked with us to resolve some of the problems in the plant quarantine area for such items as papayas and sweet cherries. It would be helpful, however, to obtain a high-level policy commitment by the Japanese to faciliate the resolution of these issues more actively.

Health regulations

The key problem facing U.S. processed foods in Japan is the Japanese Ministry of Health and Welfare's limitation on the type and tolerances of food additives that may be used on both domestic and imported foods. U.S. efforts to obtain more favorable treatment on food additives must be supportable from our own regulatory standpoint (Food and Drug Administration). This is increasingly difficult as food additives come under closer scrutiny in the United States. Emphasis should be placed on obtaining relief on items regarded as safe by international organizations. Ferrous gluconate, a food additive used as a preservative on ripe olives, fall into this category and we are now working with the U.S. industry and Japan to have it accepted as a food additive.

Japanese rice program

Japan's generous rice support program has had a number of adverse effects on U.S. trade. Surplus Japanese rice stocks, built up because of high government-subsidized prices, have been channeled into domestic livestock feeding and exports. This interferes with U.S. feed grain exports to Japan and U.S. rice exports to third countries. Efforts by Japan to get out of rice production have resulted in increases in wheat output, dampening demand for imports from the United States and other foreign suppliers.

Clearly, Japan faces a dilemma in overcoming its surplus rice situation. But we feel Japan should make a stronger effort to reduce the effects of its rice policy on U.S. exports. The Japanese are taking steps to control the rice surplus problem through strict limitations on price increases begun in 1977 and a 10-year diversion program, aimed at using 1.6 million acres of potential rice-producing land for nonrice crops in 1981. However, as the Wisemen's Report notes, "Japan is now making a much greater effort to protect existing inefficient patterns of agricultural production rather than adjusting to a new, more competitive pattern." Therefore, the United States will use every opportunity, including annual consultations, to seek further action by the Japanese to reduce the adverse effects of their surplus rice problem.

Standards regulations

These regulations, which normally are based on domestic industry criteria without the input of foreign suppliers, can be an impediment to trade. For example Japanese testing methods and strength requirements for construction of plywood (as well as a 20 percent tariff), effectively eliminate a potentially large market for U.S. plywood exports. The U.S. Government and industry are working jointly with their Japanese counterparts to demonstrate the inherent soundness of U.S. plywood. Test data and information have been exchanged, and U.S. samples have been sent to Japan for testing. In April, an industry representative traveled to Tokyo to further the understanding of the U.S. product and testing methods, as well as to learn Japanese practices. We are hopeful that through these efforts, we will succeed in working out an agreement with the Japanese Government on plywood standards that will permit the importation of the U.S. product.

Thank you for this opportunity to discuss these matters with you.

Representative RICHMOND. Thank you, Mr. Secretary.

These are truly bipartisan hearings. I've never seen so much unanimity among Republicans and Democrats on this one problem where affairs with Japan are just a one-way street, all their way, and that something has to rectify it, and I'd like to see you take the leadership because it's through mainly our American agricultural products which are ready to go that we can begin filling this $10 billion deficit.

The first thing that occurs to me is boxed beef. Obviously we're the world's leaders in boxed beef. Nobody can even begin to compare with us in boxed beef. Instead of shipping the Japanese farmers 7 tons of corn with which they very sloppily feed their handful of cattle in order to raise a ton of cattle, just think how much cheaper it would be if we shipped them a ton of boxed beef, and how much the feedlot business of the United States would get, our beef people would get the business, our slaughterhouses would get the business, and the Japanese consumer would get his beef, high-quality beef, at one-fifth the price he's now paying.

Secretary BLOCK. I concur with your statement, Congressman. In fact, I think that there are certainly more than adequate markets in Japan for those tons of beef and still ship the grain and let them raise whatever amount of beef they want.

There is a great appetite for beef and there's a real shortage of it in Japan and the cost of it is astronomical relative to our standards. We are looking toward some automatic expansion in 1983, but it looks to me like it's quite small relative to what we should be sending.

I have talked at some length with Ambassador Brock and he will be leading the trade negotiations. We are in wholehearted agreement that there must be some movement here to open up this market for us because I think both countries can benefit from it.

Representative RICHMOND. Right now the Japanese consume 500,000 tons of beef a year at these incredible prices. Just think how much they could consume if the prices were even with the Americans. They would then save the world's fishing. We know that the supply of fish throughout the world is on the decline. I'm sure the Japanese would be just as happy to eat more beef and less fish if beef were within their price potential, don't you?

Secretary BLOCK. That's right, if they could afford it.

Representative RICHMOND. Thereby we would be retaining that one natural resource in the world that is not replenishing; namely, fish.

Secretary BLOCK. Right.

Representative RICHMOND. But you can't seem to get them to understand anything. Last year they consumed 500,000 tons of beef. They allowed us to ship 40,000 tons.

Secretary BLOCK. May I comment?

Representative RICHMOND. What if we had done the same thing with their automobiles or their television sets or their electrical appliances, all of which are electric and none of which are food. I wonder how they would have felt?

Secretary BLOCK. It would probably get their attention. I would point out, though, that internationally we have a tendency in this country to sell a lot of raw products and not as much processed products as a lot of other countries. In fact, about 85 percent of what we sell to Japan are raw products, and the other 15 percent are processed products of different kinds, which is close to our worldwide average. One of the objectives of this administration and my Department, in terms of agriculture, is going to be to push for an expansion of processed products exports.

Representative RICHMOND. In other words, getting some labor into the nonrenewable resources that we keep shipping out?

Secretary BLOCK. That's right. The result would be jobs for our people and strength for our economy. We should do that and, at the same time continue to sell raw products; in effect, we should expand in both areas.

Representative RICHMOND. Even in the area of pork, I know there's a vast differential between American costs and Japanese costs. First of all, the Japanese have a duty on American pork. Second, I believe we could supply the Japanese market with American pork at at least half the price of the present pork.

Secretary BLOCK. I'm convinced that's true. I don't have the figures, but I know we have an advantage.

Representative RICHMOND. There are protective duties on pork. Lord knows why. They're not equipped to raise pork in Japan. They're equipped to manufacture the goods that they ship us, but they seem to want it both ways. They seem to want to protect their own agriculture because of those 140 Diet Members that form the foundation of the Liberal-Democratic Party who cover the rural areas. So, on one side, the biggest item of their Government expenditures—they have three major Government expenditures that are causing their deficits—national railways, national health insurance program—wouldn't it be wonderful if we Americans had a truly national railroad that went 150 miles per hour and a truly national health insurance program? They have it. And their third item of expense is subsidizing their 600,000 farmers.

Secretary BLOCK. This is a problem we have run into everywhere—not everywhere, but in more places than we would like to think. Europe is a serious problem for us, too, with their common agricultural policy and their very high supports in the European market and high duties on some of our products.

Representative RICHMOND. Except we have a positive balance of trade with Europe of $15 billion, so with a positive balance, I can't complain. But where you have this thoroughly contrived, illegal, massive impediments to shipping our wonderful American food into their country—the Agricultural Attaché told me the last time I was in Japan that their food and vegetable manual, which I'm sure you're familiar with, is only a half an inch thick, while ours run 3 and 4 inches. He said to change one page in theirs it takes 30 different Government agency signatures. So they do everything possible to keep our goods out.

Secretary BLOCK. I thought it was hard around here to get things done.

Representative RICHMOND. Looking at the Japanese markets, I don't really feel there's much of a market for American vegetables because they have incredibly high standards on the vegetables they want to eat, and I think the Japanese farmers, the market gardeners, do a superb job of raising vegetables. So that market, I'm convinced, probably will never represent too much of the Japanese vegetables. But when it comes to melons—can you imagine spending $50 for a melon? Can you imagine that?

We Americans, if we're going to visit somebody, would bring them a bouquet of flowers or a box of chocolates. If a Japanese family visits another couple, they will bring them a beautifully wrapped melon for $35. And that same melon John Elmo in the Imperial Valley would sell for $1.

Secretary Block. That's right.

Representative Richmond. These are some of the things your Department could do a wonderful job on. Let's get the American people to realize how we're being taken to the cleaners here.

Secretary Block. I appreciate that. You're right.

Representative Richmond. Thank you.

Congressman Mitchell.

Representative Mitchell. Mr. Secretary, in your prepared statement you indicated that recently the Japanese Government, as a result of these most recent talks, agreed to an expansion of its quota levels on beef, oranges, and grapefruits or something like that. From what level to what level?

Secretary Block. On the high-quality beef, it's from 20,800 tons going on up to 30,800 tons in 1983.

Representative Mitchell. That's not much of an increase.

Secretary Block. It's not very much to start with, to tell you the truth, and on oranges in 1980 it's 68,000 tons and in 1983 it goes up to 82,000 tons.

Representative Mitchell. Not very significant.

Secretary Block. It's not from a very high base. That's the problem.

Representative Mitchell. Particularly stretched out over a 3-year period. At the end of the 3-year period, do you plan another round of negotiations?

Secretary Block. I hope we can make better progress than that. To me, it looks like it's quite slow.

Representative Mitchell. OK. Maybe this is not specifically related to our topic this morning, but I'm curious about this.

As I understand it, we have just enormous tons and tons of surplus food stored and for some strange reason we can't give it away to our poor and needy of this country. Is there any possibility of any of that surplus being used in trade with Japan or with any country, for that matter, but particularly Japan?

Secretary Block. Well, most of the surplus that we have is in private hands, with the exception of the dairy products which are held by the Government. If there are any countries that are willing to buy it, we want to sell it and we are working on that.

We also provide some to needy countries, but that accounts for only part of it.

Representative Mitchell. That doesn't even make a dent in it.

Secretary Block. It doesn't make a dent in it at the rate we're accumulating it. We're losing ground every day on the dairy situation. But other than dairy, the Government really doesn't hold any stocks of surpluses. We have some wheat, but it isn't held by the Government. It's owned by private farmers and we do have a record wheat crop in prospect—in fact, in harvest right now, and we are looking toward some markets for this wheat.

Representative Mitchell. Now in this next round of negotiations with Mr. Brock, will that be planning beyond 1983 or will there be a possibility of making any changes in the agreements that have been reached up to this point?

Secretary Block. I think there's a possibility of making some changes.

Representative MITCHELL. Are we talking about 1983 and beyond or renegotiating really some of the present negotiations?

Secretary BLOCK. Yes, but really I think we don't have any agreements that are concrete except up to 1983 anyway, and surprisingly enough it's going to be 1983 before we know it. I would say most of the agreement would be to work from 1983 on. It will be possible to talk in the spring of 1983, but I think the important thing is really to get something going in the future and make some progress after that.

Representative MITCHELL. Thank you, Representative Richmond.

Representative RICHMOND. Thank you, Congressman.

Mr. Secretary, I know Representative Mitchell just mentioned the MTN round for 1983. As you know, we accelerated them in the case of semiconductors. Is there any chance, do you think, of accelerating the MTN rounds on agricultural products where we're so clearly being discriminated against?

Secretary BLOCK. I think there's a possibility. I know Ambassador Brock and I have talked about that and we still hold out hope that we can make some acceleration here and move into them more quickly.

Representative RICHMOND. So your main——

Secretary BLOCK. And I'm encouraging him to work in this direction if he can make the wheels turn on the other side.

Representative RICHMOND. Mr. Secretary, while obviously I'm a free trader, coming from New York City, I'd have to be a free trader, but it really aggravates me to see that Japan piles up a $10 billion deficit of luxury, highly manufactured goods with the United States, as against our nonrenewable natural resources that we ship them. On the other side, their other two trading partners, Canada and Australia, which is somewhat protectionist, have the exact opposite relationship with Japan. Canada and Australia obviously allow 50 percent as much manufactured goods coming in as natural resources going out. So Japan has a $10 billion surplus with us and they have a $5 billion deficit with Canada and Australia. Sure, they're protectionists and sure we don't want to be, we Americans, but here we pay their defense bill. They pay nine-hundredths of 1 percent of their GNP for defense and four-hundredths of their GNP on business entertaining. So they really relegate to defense only twice as much as their business entertaining. We put roughly 8 percent of our GNP in defense. We defend them. Canada and Australia don't defend them. They have a surplus of $5 billion and we have a deficit of $10 billion.

American logs are shipped on Japanese ships to sea and processed on timber ships out to sea and that wood is just returned to the United States. Why is it we Americans can't seem to make plywood to meet the Japanese standards? Is that again something that they have gone out of the way to make sure American plywood doesn't get into Japan?

Secretary BLOCK. I can't answer that. All I know is we're trying, with experts—our experts in concert with their experts—to demonstrate that our plywood meets all the standards that they're trying to create and I have to hold out some hope that we can get it turned around. But sometimes, like you say, you get so far on something and then another roadblock falls right in front of you. Just as you're about to get by the first one, a new one falls in place. It can be frustrating. I know it has been for some of our negotiators.

Representative RICHMOND. You know, in Japan there's a problem; the Prime Minister is not that protectionist, but the Ministry of Agriculture, Forestry, and Fisheries is violently protectionist, and all they're interested in doing is protecting their lower producers and they couldn't care less about the Japanese consumer.

I hope these hearings which are certainly being aired in Japan much more than they are here will get the Japanese consumer a little annoyed that he's paying five times too much for his food. Look at that graph. Isn't that incredible?

Secretary BLOCK. We can provide great service to the Japanese consumer if we're given the opportunity.

Representative RICHMOND. It would equalize the deficit balance of trade. That deficit balance of trade of $10 billion costs us $1.5 million in our Treasury bonds. It would help reduce inflation in the United States. It would help reduce the cost of living in Japan. It would allow the Japanese Government to put that money that's being put into farmers into housing which they desperately need. The whole thing seems so simple. Yet we can't make any progress at all. We have to look to you and Secretary Beldrige and Ambassador Brock to do it.

Secretary BLOCK. You can be confident I will be doing what I can and working very vigorously on this, Congressman.

Representative RICHMOND. Thank you, Mr. Secretary.

Secretary BLOCK. Thank you, sir.

Representative RICHMOND. I'm very happy to see Mr. Frank Gard Jameson of the Glenair Industries of Los Angeles, and he's also been involved in vegetable and melon growing virtually his entire life in the Imperial Valley. Mr. Jameson, if you would come to the witness stand and give us a few offhand remarks about the Imperial Valley farmer and how he can help the Japanese consumer.

STATEMENT OF FRANK GARD JAMESON, CHAIRMAN, GLENAIR, INC., LOS ANGELES, CALIF.

Mr. JAMESON. Representative Richmond, I'm delighted to be here. I'm here at your request. In your frequent visits overlooking the agricultural situation in California, you're to be commended, and the people out there appreciate your interest in those products.

Mr. Elmo, as you mentioned, shipped 2 million cases of cantaloups recently at no profit because it was 40 cents a cantaloup and not $1, as was previously mentioned.

I think the most important thing in the Japanese trade is not the music, it is the tune that counts, because you can have all the laws in the world, but if the people want to put roadblocks—as the Secretary of Agriculture just mentioned—they can put any roadblocks they want. They could leave your produce on the docks. They can overinspect it. They can have too many things they have to do to it. But basically, in agriculture, different from manufacturing which is my principal business, it is not the cost of making the product. It is what the marketplace pays for it, and a very slight imbalance will cause a farmer not to make any money at all. So you have a great responsibility between the consumers of this country and the farmers. If you eliminate the farmers because they can't make money, that's a very bad thing.

In California today oranges are not being picked or planted because of the fact that the price is so bad.

Thank you, Congressman.

Representative RICHMOND. Now if we have the Japanese market open——

Mr. JAMESON. Just a very small amount would cause the industry to be very healthy. So it doesn't take an awful lot. You don't have to flood the country.

Representative RICHMOND. Just think what a few shiploads of melons could do to our Imperial Valley farmers on one side and how we could reduce the cost of living in Japan.

Mr. JAMESON. We had our best crop of melons and there's absolutely no money. The production was good but the price was down to 40 cents.

Representative RICHMOND. What do you think you could have gotten if you could have landed them in a refrigerated ship at Tokyo?

Mr. JAMESON. It would have been very profitable at 80 or 90 cents a melon because the ships can go to Japan in 8 to 10 days, which most people don't realize, almost the same time as trains from the West Coast to the East Coast.

Representative RICHMOND. And the melons would ripen on the ship?

Mr. JAMESON. They don't have to. They're very well taken care of.

Representative RICHMOND. In 8 to 10 days?

Mr. JAMESON. Yes.

Representative RICHMOND. When I was in Japan just 2 months ago, melons were selling between $20 and $50, depending on the quality of melons. Can you imagine?

Mr. JAMESON. It's amazing.

Representative RICHMOND. Thank you very much.

Our next witness is a panel. We have Ron Davis, assistant to the president, Colonial Beef Co.; J. Stephen Gabbert, executive vice president, Rice Millers' Association; Julian Heron, California-Arizona Citrus League; Arnold Mayer, international vice president and director of Government Affairs, AFL–CIO; John T. Lesley, chairman, Trade Advisory Council, Florida State Department of Citrus; and Eugene Kilik, president, Tanners' Council.

Good morning, gentlemen. I'm certainly glad to have all of you here. Mr. Davis, why don't you lead off and all of your prepared statement will be included in the printed record. All of you gentlemen are welcome to take 10 minutes and summarize your statements and give us any other remarks you would like to have in the record, but your entire prepared statement will appear in the record as written.

STATEMENT OF RON DAVIS, ASSISTANT TO THE PRESIDENT, COLONIAL BEEF CO., PHILADELPHIA, PA.

Mr. DAVIS. Thank you, Congressman.

My name is Ron Davis and I'm assistant to the president of Colonial Beef Co., Philadelphia, and we're pioneers in the field of portion control meats. This year we won the Pennsylvania Governor's Agriculture Award for 1981 and we have been doing business with Japan since 1975.

I normally visit Japan from one to two times a year and we have continually strived to eliminate Japan's restrictive trade barriers to open the Japanese market for import of United States finished meat products.

At yearend 1980, Japan enjoyed a trade surplus with the United States of approximately $10 billion. This trade imbalance has remained virtually constant for several years, with little or no effort on Japan's part to establish a more equitable trading partnership. One of the areas in which this trade deficit can be reduced is through the expanded sale of "high quality beef," especially portion control valued-added products.

Japan poses a complex formidable problem in the complex arena of international trade. The United States, although blessed with an abundance of technical skills, imports mammoth numbers of TV's, radios, watches, cameras, automobiles, motorcycles, and calculators, making household words of Toyota, Datsun, Casio, Canon, Sony, Sanyo, Minolta, Seiko, Citizen, Nikkon, and so on. With the increasing number of imports comes the inevitable dramatic loss of jobs in the United States—7 percent unemployment in the United States and 1 percent unemployment in Japan.

The irony is that Japan, though heavily dependent upon imports to fill its demands for high quality beef, sets ridgid restrictions on the import of these items from our country. There exists today an unfair quota system, heavy levies, and a general lack of cooperation that reduces U.S. beef exports to a fraction of what they could be.

The major reasons given by Japan for the meat quotas are: (*a*) To protect their country's farmers who depend on meat products for income; and (*b*) the demand for high quality U.S. beef is limited. It is my contention that these reasons are a fallacy. In truth, the demand for high quality U.S. beef throughout Japan is substantial, especially in hotels and restaurants catering to Western visitors. In addition, supermarkets and department stores crave U.S. beef which is unsurpassed in quality and reasonable in price The ability of Japanese farmers to raise enough cattle to provide even a fraction of the meat needs of the Japanese population and Western visitors is extremely limited, and imports can be greatly increased without infringing on Japanese industry at all.

U.S. choice and prime meat products are far superior to the Australian, and there is additional cost involved in the raising and processing of beef. The 25-percent surcharge imposed by the Government of Japan on all meat imports greatly increases this cost. In addition, this surcharge is based on not the product price but the landed price, which means that even ocean or air freight is subject to the 25-percent tax.

If the exorbitant tax is not bad enough, there is, in addition, a surcharge which runs anywhere from 30 to 75 cents per pound, depending on the cut of meat. Is it any wonder why U.S. meat is too expensive? In retrospect, the United States charges 2 cents per pound for all meat imported from EC countries.

Japan's "lack of demand" issue is sheer nonsense. Three Japanese meat promotions stand out in my mind: The Harumi International Food Show, Kansai Cold Stores Food Show in Osaka, and the Boatique America Show. At the Harumi show, 30 metric tons of mostly portion control meats were exhibited and completely sold out in less than 4 hours. The Kansai show had approximately 20 metric tons of portion control meats which were sold out so quickly that they had to be rationed, and police were called in to help quell the unruly crowds trying to obtain U.S. beef products.

Boatique America is the most significant example, where 130 metric tons—out of 1,000 metric tons requested by the U.S. Department of Commerce—were completely sold out. Sales were described by the press as follows:

America's latest effort to promote exports to Japan—a floating department store—proved at least one thing during 5 days of sales here.

Japanese consumers like American beef, or at least they like the prices.

By the time the 13,082-ton *Shin Sakura-Maru* left Tokyo Wednesday to move to the second of 13 ports of call in Japan, beef sales had accounted for almost 24 percent of the $646,702 worth of merchandise sold aboard the ship, which was anchored at Harumi Pier. The next best-selling category—women's apparel—brought in only about half as much.

The crowds, especially over the weekend, were large and many people went directly to the beef counter on the lower deck where sirloin was selling for $7.59 a pound—a bargain by Japanese standards. Weekend crowds were so big that thousands had to be turned away.

Beef sales, which were restricted to 2.2 pounds (one kilogram) per customer, were cut off after 4 hours one day when the daily allocation of 2,600 kilograms (5,270 pounds) ran out.

During calendar 1980, Japan imported a total of 121,889 metric tons of meat, broken down as follows: Australia, 92,935 metric tons—76.2 percent; the United States, 22,437 metric tons—18.4 percent; and other countries, 6,517 metric tons—5.3 percent. It must be mentioned that United States meat is federally inspected, while Australian, and that of most other countries, is not. Additionally, the United States provides grain-fed cattle, while Australia's cattle are grass-fed, resulting in meat of a lower quality.

In the second half of 1978, after much prodding by the U.S. Foreign Agricultural Service, U.S. Meat Export Federation, Office of the Special Trade Representative, and private industry, Japan raised its hotel quota—a private quota for hotels and trading companies—from 1,000 to 3,000 metric tons per year. Since the fall of 1978, many top-rate hotels have been built and yet not 1 pound has been added to the hotel quota.

Earlier this year I visted Japan, in May to be exact, right after Congressman Richmond was there, and I delivered to U.S. Ambassador Michael Mansfield letters from U.S. Senator Heinz, U.S. Meat Export Federation president, Alan Middaugh, Seafarers International Union president, Frank Drozak, and United Food and Commercial Workers International president, William Wynn. All of the letters took exception to Japan's restrictive trade policy on U.S. meat, especially finished products, and urged Ambassador Mansfield to encourage the Japanese Government to relax its restrictions and expand its quota.

In addition, I delivered letters in the same context from UFCW President Wynn to MAFF, the Ministry of Agriculture, Forestry and Fishery, and the Ministry of International Trade and Industry, imploring Japan to voluntarily improve its restrictive trade policy or face the possibility of adverse reaction by American workers employed in the meat industry. To date, there has been no response.

While in Tokyo I met personally with the U.S. Agricultural Attaché Dudley Williams, Asian Director of the U.S. Meat Export Federation Dr. L. B. Tennison, and Ambassador Mansfield, who were indeed sympathetic but could offer no encouragement.

Also during my contact with Japanese Government officials from LIPC—that's the Livestock Industrial Procurement Corp.—MITI and Zennikuren, the Japanese meat cooperative union. I explained if the Japanese do not become more realistic with regard to their policy on U.S. meats they may face retaliation by U.S. workers and eventually even American consumers.

It is my opinion that Japan must take three immediate steps to ease the tension, reduce the trade imbalance and improve relations with the United States: (1) Increase the "Hotel Quota" by applying some of the 4,000 additional metric tons of high quality beef agreed to under the multilateral trade agreement; (2) persuade LIPC to include within its 30,000 metric-ton-per-year high-quality beef quota some segment for portion control value-added meat products; and (3) reduce the 25 percent levy—apply it to product only and eliminate the surcharge.

We cannot continue to allow Japan, who exports 30 percent of its finished products to the United States, to continue to maintain restrictive quotas, high levies, and tariffs and, at the same time, inundate the United States with Japanese products.

I'd like to add that our company is the largest supplier to Japan of tourist gift boxes which the Japanese take back on the airplanes. They take back from Colonial Beef Co. alone in the area of 1,500 boxes per week and we only supply about 25 percent of what is, taken back. This product is sold anywhere from $35 to $50 for a 4-pound box, so you can imagine how much it's sold for in Japan.

In addition, I've just returned from Taiwan who in 1979 went on a "Buy American" program because they had a $2.6 billion trade surplus with the United States. That surplus is now down to $2 billion, but they are making a concrete effort to improve it. Two years ago the tax on United States beef in Taiwan was $3 a pound. Today it is 30 cents.

The one thing I'd like to add is that I have a labor background and we never bargained from compromise. The United States has many reasons to bargain from strength with the Japanese but we choose not to. As a result, I have told the Japanese Government that because of my involvement with labor before that if our Government is not able to convince the Japanese Government to be realistic, somewhere down the road, and not very far down the road, labor will take a role itself to indicate its displeasure of not getting a fare share losing jobs, and not having the Japanese do anything at all to help promote jobs in the United States. Thank you.

[The prepared statement of Mr. Davis follows:]

Prepared Statement of Ron Davis

My name is Ron Davis; I am assistant to the president of Colonial Beef Company, Philadelphia, a pioneer in the field of Portion Control meats. Colonial has been in existence since 1889, and under its present ownership since 1937. Louis E. Waxman, president and sole owner, is known internationally for his expertise in the field of Portion Control.

Our company began selling Portion Control meat products to Japan in the Fall of 1975 and we currently do business with at least a dozen major Japanese trading companies. We have continually strived to eliminate Japan's restrictive trade barriers to open the Japanese market for import of U.S. finished meat products.

At year-end 1980, Japan enjoyed a trade surplus with the United States of approximately $10 billion. This trade imbalance has remained virtually constant for several years, with little or no effort on Japan's part to establish a more equitable trading partnership. One of the areas in which this trade deficit can be reduced is through the expanded sale of "high quality beef", especially Portion Control value-added products.

Japan poses a formidable problem in the complex arena of international trade. The United States, although blessed with an abundance of technical skills, imports mammoth numbers of TV's, radios, watches, cameras, automobilies, motorcycles, calculators, making household words of Toyota, Datsun, Casio, Canon, Sony, Sanyo, Minolta, Seiko, Citizen, Nikkon, and on and on and on. With the increasing number of imports comes the inevitable—a dramatic loss of jobs in the United States.

The irony is that Japan, though heavily dependent upon imports to fill its demands for high quality beef, sets rigid restrictions on the import of these items from our country. There exists today an unfair quota system, heavy levies and a general lack of cooperation that reduces U.S. beef exports to a fraction of what they could be.

The major reasons given by Japan for the meat quotas are: (a) to protect their country's farmers who depend on meat products for income; and (b) the demand for high quality U.S. beef is limited. It is my contention that these reasons are a fallacy. In truth, the demand for high quality U.S. beef throughout Japan is substantial, especially in hotels and restaurants catering to Western visitors. In addition, supermarkets and department stores crave U.S. beef which is unsurpassed in quality and reasonable in price. The ability of Japanese farmers to raise enough cattle to provide even a fraction of the meat needs of the Japanese population and Western visitors is extremely limited, and imports can be greatly increased without infringing on Japanese industry at all.

U.S. Choice and Prime meat products are far superior to the Australian, and there is additional cost involved in the raising and processing of beef. The 25 percent surcharge imposed by the Government of Japan [GOJ] on all meat imports greatly increases this cost. In addition, this surcharge is based on not the product price, but the landed price, which means that even ocean or air freight is subject to the 25 percent tax.

If the exorbitant tax is not bad enough, there is, in addition, a surcharge which runs anywhere from 30 to 75 cents per pound, depending on the cut of meat. Is it any wonder why U.S. meat is too expensive? In retrospect, the United States charges 2 cents per pound for all meat imported from EC countries.

Japan's "lack of demand" issue is sheer nonsense. Three Japanese meat promotions stand out in my mind; the Harumi International food show, Kansai Cold Stores food show (Osaka), and the Boatique America show. At the Harumi show, 30 metric tons of mostly Portion Control meats were exhibited and completely sold out in less than four hours. The Kansai show had approximately 20 metric tons of Portion Control meats which were sold out so quickly that they had to be rationed, and police were called in to help quell the unruly crowds trying to obtain U.S. beef products.

Boatique America is the most significant example, where 130 metric tons (out of 1,000 metric tons requested by the U.S. Department of Commerce) were completely sold out. Sales were described by the press as follows:

"America's latest effort to promote exports to Japan—a floating department store—proved at least one thing during five days of sales here.

"Japanese consumers like American beef, or at least they like the prices.

"By the time the 13,082-ton Shin Sakura-Maru left Tokyo Wednesday to move to the second of 13 ports of call in Japan, beef sales had accounted for almost 24% of the $646,702 worth of merchandise sold aboard the ship, which was anchored at Harumi Pier. The next best-selling category—women's apparel—brought in only about half as much.

"The crowds, especially over the weekend, were large and many people went directly to the beef counter on the lower deck where sirlion was selling for $7.59 a pound—a bargain by Japanese standards. Weekend crowds were so big that thousands had to be turned away.

"Beef sales, which restricted to 2.2 pounds (one kilogram) per customer, were cut off after four hours one day when the daily allocation of 2,600 kilograms (5,720 pounds) ran out."

During calendar 1980, Japan imported a total of 121,889 metric tons of meat, broken down as follows: Australia, 92,935 metric tons [76.2 percent]; the United States, 22,437 metric tons [18.4 percent]; and other countries, 6,517 metric tons [5.3 percent]. It must be mentioned that U.S. meat is federally inspected, while Australian, and that of most other countries, is not. Additionally, the U.S. provides grain-fed cattle, while Australia's cattle are grass-fed, resulting in meat of a lower quality.

In the second half of 1978, after much prodding by the U.S. Foreign Agricultural Service [FAS], U.S. Meat Export Federation [MEF], Office of the Special Trade Representative [STR] and private industry, Japan raised its hotel quota (a private quota for hotels and trading companies) from 1,000 to 3,000 metric tons per year. Since the Fall of 1978, many top-rate hotels have been built and yet not one pound has been added to the hotel quota.

Earlier this year I visited Japan and delivered to U.S. Ambassador Michael Mansfield letters from U.S. Senator Heinz, U.S. Meat Export Federation president Alan Middaugh, Seafarers International Union president Frank Drozak, and United Food and Commercial Workers international president William Wynn. All of the letters took exception to Japan's restrictive trade policy on U.S. meat, especially finished products, and urged Ambassador Mansfield to encourage the Japanese government to relax its restrictions and expand its quota.

In addition, I delivered letters in the same context from UFCW president Wynn to MAFF, the Ministry of Agriculture, Forestry and Fishery, and the Ministry of International Trade and Industry [MITI], imploring Japan to voluntarily improve its restrictive trade policy or face the possibility of adverse reaction by American workers employed in the meat industry. To date, there has been no response.

While in Tokyo I met personally with the U.S. Agricultural Attache Dudley Williams, Asian director of the U.S. Meat Export Federation Dr. L. B. Tennison, and Ambassador Mansfield, who were indeed sympathetic but could offer no encouragement.

Also during my contact with Japanese Government officials from LIPC, MITI and Zennikuren [the Japanese meat cooperative union]. I explained if the Japanese do not become more realistic with regard to their policy on U.S. meats they may face retaliation by U.S. workers and eventually even American consumers.

It is my opinion that Japan must take three immediate steps to ease the tension, reduce the trade imbalance and improve relations with the United States: (1) increase the "Hotel Quota" by applying some of the 4,000 additional metric tons of high quality beef agreed to under the Multi-Lateral Trade Agreement; (2) persuade LIPC to include within its 30,000 metric-ton-per-year high quality beef quota some segment for Portion Control value-added meat products; and (3) reduce the 25 percent levy—apply it to product only and eliminate the surcharge.

We cannot allow Japan, who exports 30 percent of its finished products to the United States, to continue to maintain restrictive quotas, high levies and tariffs and, at the same time, inundate the United States with Japanese products.

Representative RICHMOND. Thank you, Mr. Davis.

As you know, I'm in full and absolute agreement with everything you said. Very fortunately, our next witness is the consumer's voice of the AFL–CIO, and there's no one who cares more about consumer welfare than Mr. Arnold Mayer. We're glad to have you here, Mr. Mayer.

STATEMENT OF ARNOLD MAYER, INTERNATIONAL VICE PRESIDENT AND DIRECTOR OF GOVERNMENT AFFAIRS, UNITED FOOD AND COMMERCIAL WORKERS INTERNATIONAL UNION, AFL–CIO, WASHINGTON, D.C.

Mr. MAYER. Representative Richmond, my prepared statement is about the problems involving the trade in beef with Japan. However, before I go into that, I'd like to deal with another industry in which our union also has trade problems. That is leather tanning, and I'm sure Mr. Kilik will go into great detail on that. The problems that have been talked about in beef and citrus are mirrored in leather tanning, perhaps even more so.

In 1979, the United States and Japan reached a bilateral agreement whereby Japan would buy 16 million square feet of tanned leather from the United States. That agreement simply hasn't been kept. Very little tanned leather has been bought by Japan and, unfortunately, our Government hasn't pressed the agreement.

We are very concerned about that. Some 30,000 of our members work in the leather tanning industry and we hope that this problem will be considered by your subcommittee and the U.S. Government. We also urge that the U.S. Government presses on this matter.

Representative RICHMOND. Mr. Mayer, is Japanese leather competitive with American tanned leather?

Mr. MAYER. I believe so. Mr. Kilik is the expert on it. He can tell you.

Representative RICHMOND. We'll wait for Mr. Kilik.

Mr. MAYER. He can tell you about that better than I can.

Congressman, in our view, Japan simply does not understand the deep feelings caused among workers in this country, including many members of our union. These Americans see many dozens of Japanese goods taking major parts of the United States market. Yet items produced in our country are sharply limited or even banned from the Japanese market by the edict of the Japanese Government. A very strong feeling exists that the United States is simply a patsy for Japan in the field of international trade.

This problem is not simply one of hurt feelings or national sensitivity. Real economic harm has come to hundreds of thousands of U.S. workers who have lost their livelihood because of the massive Japanese exports of automobiles, television sets, radios, watches, and many other goods. American industries have been destroyed and many communities severely hurt.

Yet, Japan—perhaps the greatest exporting nation in the history of the world—fails to reciprocate and permit American goods to be freely sold in its market or in as large numbers as Japanese goods are here.

The UFCW is particularly concerned about the restrictions which Japan places on the purchase of U.S. meat. Other witnesses—Mr. Davis—has described the restrictions and I will not repeat them. Suffice to say that Japan must import beef. It has only a small cattle-raising industry. In 1980, it produced 2,269,000 head of cattle, of which 77,000 head were dairy cows.

For internal political reasons, Japan protects its meat industry. Although it is small, the industry apparently has a strong voice and political clout in the major factions of the ruling political party.

But even in its existing meat purchases, the Japanese Government discriminates against United States beef. In 1980, 122,000 metric tons of beef was imported by Japan. Some 22,000 metric tons came from the United States, while some 98,000 metric tons came from Australia.

Some of the reasons why Australia was able to ship more than four times as much meat into Japan as the United States are interesting. One is that some powerful Japanese rural businessmen reportedly own cattle ranches in Australia. Another is that Australia plays trade hardball with the Japanese. Reportedly, Australia has told the Japanese who need some Australian mineral exports that these exports must go hand-in-hand with other Australian exports such as meat. Perhaps the U.S. Government could take an example.

Of the 22,000 metric tons of United States meat sold in Japan in 1980, the Livestock Industries Procurement Corporation, a Japanese Government agency, purchased 19,000 metric tons. Interestingly, not one kilo of the LIPC-purchased meat was finished meat or consumer cuts, where U.S. workers and business had added value. The smallest cut bought by LIPC was whole tenderloins.

The other 3,000 metric tons were purchased by private Japanese trading companies. Comparatively little of this beef is finished. No exact statistics exist, but perhaps only 500 to 700 metric tons of meat imported by Japan annually is finished meat.

Obviously, as an organization of workers, the UFCW is greatly interested in the export of finished meat products. We would like our members to share more in the benefits of the trade. That benefit would come from the jobs created in the United States. Experts have estimated for us that each 1,000 metric tons of finished meat sold to Japan would generate some $10 million in sales and create some 150 jobs.

Particularly important among finished meat sales to Japan is the Japanese hotel quota. Currently, Japan permits the United States to export 1,500 metric tons into Japan every 6 months. Significantly, that quota has not been changed since the second half of 1978. During that time, over 100 additional major hotels have opened in Japan.

Obviously, there is a Japanese market for U.S. meat. The three examples which Mr. Davis has mentioned, I have mentioned, also, and also our local union in Hawaii reports that meat is an extremely big seller among Japanese tourists going back home.

The truth is that a very good demand for U.S. beef, including finished beef, exists in Japan. Beef could be produced and sold to the great, mutual benefit of U.S. workers and business and Japanese consumers. But the Japanese Government prevents this trade from occurring by sharply limiting the amount the United States may sell. Further, the Japanese Government discriminates against the United States and in favor of Australia in its quotas and purchases of beef, particularly finished beef.

Representative Richmond and members of the subcommittee, U.S. workers deeply resent this situation. It is difficult enough to suffer job losses because of massive Japanese imports. Insult is added to the injury when American products are kept from Japan because of Japanese Government quotas and other protective devices.

How long is such a situation to be allowed to continue? We would appreciate your urging our Government to follow the example of Australia in trade discussions. If the threats are not sufficient, action will be necessary.

We thank you for the opportunity to present our views on this important subject and your consideration of the very serious inequity in United States-Japanese trade.

[The prepared statement of Mr. Mayer follows:]

Prepared Statement of Arnold Mayer

My name is Arnold Mayer. I am an International Vice President and the Director of Government Affairs of the United Food and Commerical Workers International Union (AFL–CIO).

The UFCW is a labor union with 1.3 million members organized in some 700 local unions throughout the United States and Canada. The UFCW and its local unions have collective bargaining agreements with tens of thousands of employers throughout the food processing, retail sales, leather, health, commercial, shoe, fur and other industries.

We appreciate the opportunity to testify at these hearings. We consider the airing of the issues in U.S.-Japanese trade to be extremely important.

DEEP FEELINGS

In our view, Japan simply does not understand the deep feeling caused among workers in this country, including many members of our Union. These Americans see many dozens of Japanese goods taking major parts of the U.S. market. Yet, items produced in our country are sharply limited or even banned from the Japanese market by the edict of the Japanese government. A very strong feeling exists that the United States is simply a patsy for Japan in the field of international trade.

This problem is not simply one of hurt feelings or national sensitivity. Real economic harm has come to hundreds of thousands of U.S. workers who have lost their livelihood because of the massive Japanese exports of automobiles, television sets, radios, watches, and many other goods. American industries have been destroyed and many communities severely hurt.

Yet, Japan—perhaps the greatest exporting nation in the history of the world—fails to reciprocate and permit American goods to be freely sold in its market or in as large numbers as Japanese goods are here.

MEAT QUOTAS

The UFCW is particularly concerned about the restrictions which Japan places on the purchase of American meat. Other witnesses will describe these restrictions and I will not repeat. Suffice to say, that Japan must import beef. It has only a small cattle raising industry. In 1980, it produced 2,269,000 head of cattle, of which 777,000 head were dairy cows.

For internal political reasons, Japan protects its meat industry. Although it is small, the industry apparently has a strong voice and political clout in the major factions of the ruling political party.

But even in its existing meat purchases, the Japanese government discriminates against U.S. beef. In 1980, 122,000 metric tons of beef was imported by Japan. Some 22,000 metric tons came from the United States, while some 93,000 metric tons came from Australia.

Some of the reasons why Australia was able to ship more than four times as much meat into Japan as the U.S. are interesting. One is that some powerful Japanese rural businessmen reportedly own cattle ranches in Australia. Another is that Australia plays trade hardball with the Japanese. Reportedly, Australia has told the Japanese who need some Australian mineral exports that these exports must go hand-in-hand with other Australian exports, such as meat. Perhaps the U.S. government could take an example.

LITTLE FINISHED MEAT

Of the 22,000 metric tons of U.S. meat sold in Japan in 1980, the Livestock Industries Procurement Corporation, a Japanese government agency, purchased 19,000 metric tons. Interestingly, not one kilo of the LIPC-purchased meat was finished meat or consumer cuts, where U.S. workers and business had added value. The smallest cut bought by LIPC was whole tenderloins.

The other 3,000 metric tons were purchased by private Japanese trading companies. Comparatively little of this beef is finished. No exact statistics exist, but perhaps only 500 to 700 metric tons of meat imported by Japan annually is finished meat.

Obviously, as an organization of workers, the UFCW is greatly interested in the export of finished meat products. We would like our members to share more in the benefits of the trade. That benefit would come from the jobs created in the United States. Experts have estimated for us that each 1,000 metric tons of finished meat sold to Japan would generate some $10 million in sales and create some 150 jobs.

Particularly important among finished meat sales to Japan is the Japanese hotel quota. Currently, Japan permits the U.S. to export 1,500 metric tons into Japan every six months. Significantly, that quota has not been changed since the second half of 1978. During that time, over 100 additional major hotels have opened in Japan.

GOOD POTENTIAL MARKET

Would there be a Japanese market for U.S. meat, especially finished meat, if government restrictions were eased or eliminated? There certainly is! Here are three recent incidents to prove that point:

1. In 1978, the Kansai Cold Storage Company ran a meat promotion in Osaka in which 20 metric tons of U.S.-produced steaks were available for sale. The police had to be called to control the crowds which were fighting to purchase the high quality American beef.

2. In 1979, the U.S. Department of Commerce ran a "Boatique America" on a ship which exhibited products in 13 Japanese ports. The Department had sought a 1,000 metric ton special quota of beef and was given a 130 metric ton quota by the Japanese government for the event. Some 90 metric tons were finished American meat. The demand was so great that purchases at $8 a pound had to be restricted and still the 130 metric tons were sold quickly and thousands of would-be purchasers turned away.

3. In 1980, the U.S. Foreign Agricultural Service ran a promotion in which 30 metric tons of finished meat were offered. The amount was sold in four hours.

Also, we understand that one of the biggest sales items among Japanese tourists who are leaving Hawaii to fly back home are boxes of American steaks and other beef cuts. Our Local Union in Hawaii tells us the beef is an immense seller among the tourists.

The truth is that a very good demand for U.S. beef, including finished beef exists in Japan. Beef could be produced and sold to the great, mutual benefit of U.S. workers and business and Japanese consumers. But the Japanese government prevents this trade from occurring by sharply limiting the amount the U.S. may sell. Further, the Japanese government discriminates against the United States and in favor of Australia in its quotas and purchases of beef, particularly finished beef.

GREAT RESENTMENT

Mr. Chairman and Members of the Committee, U.S. workers deeply resent this situation. It is difficult enough to suffer job losses because of massive Japanese imports. Insult is added to the injury when American products are kept from Japan because of Japanese government quotas and other protective devices.

How long is such a situation to be allowed to continue? We would appreciate your urging our government to follow the example of Australia in trade discussions. If the threats are not sufficient, action will be necessary.

We thank you for the opportunity to present our views on this important subject and your consideration of the very serious inequity in U.S.-Japanese trade.

Representative RICHMOND. Mr. Mayer, you say 1,000 metric tons of finished beef—in other words, we're talking about boxed beef, right?

Mr. MAYER. No; finished beef actually would be consumer cuts.

Representative RICHMOND. Which is one step more than boxed beef?

Mr. MAYER. It may be one or it may be two steps further.

Representative RICHMOND. Right. If the Japanese would open up their markets to our consumer cuts or boxed beef or processed beef, we could easily ship half a billion dollars worth with no trouble. We know that. We would be saving the Japanese consumer $5 for every $1 he pays for his meat.

Can you imagine the Japanese absolutely refusing to allow us to ship more than 40,000 tons and we Americans just sitting by and letting it all happen to us? What can your union—you represent the largest membership organization in the entire United States by far—if our Government—if Messrs. Baldrige, Block, and Brock don't do something about this; what can you do?

Mr. MAYER. Well, Congressman, we could press the U.S. Government. It is better to achieve our goal through government-to-government action. There are other actions that the union could take, but

I really wish we wouldn't have to. It is a disgrace that nothing has been done about this problem.

Representative RICHMOND. And that the American people don't even know how we're being taken to the cleaners.

Mr. MAYER. The American Government gets shocked when we talk about quotas. The American Government gets shocked when when we talk about U.S. jobs lost and urge that something be done about it. Yet, here we have a situation where quotas are imposed by the Japanese Government against U.S. products, and yet continuously seem to go hat in hand to the Japanese Government about it.

Representative RICHMOND. Just by your own reckoning, if we could equalize the problem of beef, it would create another 150,000 jobs in the United States and get the Japanese their beef at one-fifth of their cost.

Mr. Mayer, I know that we can look to you for some leadership in this field because you're so intimately connected with consumer problems in the United States and I'm sure you can also sympathize with the Japanese consumer. Nobody else seems to be sympathizing with him. The Australian example is an excellent one. Is there anything we can do to take Australian pressure off Japan so they could feel——

Mr. MAYER. I don't know if we could take Australian pressure off, but we certainly could put United States pressure on.

Representative RICHMOND. Exactly.

Mr. MAYER. Why can't we use the television sets and the radios and the other Japanese goods as a bargaining point and play the same hardball game as the Australians apparently are?

Representative RICHMOND. When you say that 1,000 tons would create 150 jobs——

Mr. DAVIS. That is a very conservative estimate.

Representative RICHMOND. Can you imagine how much that equals in consumer goods and creates in jobs? Many, many more times that 150, correct?

Mr. MAYER. Right.

Representative RICHMOND. And the Japanese have everything going for them if they could only give us a fair shake, and I certainly hope and look to your union to make sure we get a fair shake.

Mr. MAYER. We look to you for help and we know we'll get it.

Representative RICHMOND. You and I have been working together for a long time.

Our next witness is Mr. Gabbert, executive vice president of the Rice Millers' Association—RMA.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION, RMA, ACCOMPANIED BY THOMAS R. GRAHAM, LAW FIRM OF PATTON, BOGGS & BLOW, INTERNATIONAL TRADE COUNSEL FOR RMA

Mr. GABBERT. Thank you, Representative Richmond. I'd like to request that my prepared statement be inserted in the record. I will make some brief remarks orally.

Representative RICHMOND. Without objection.

Mr. GABBERT. My name J. Stephen Gabbert. I'm executive vice president of the Rice Millers' Association—RMA. We are a trade association that represents farmer-owned cooperatives and privately owned rice mills in the United States who process virtually all the rice produced in this country. Accompanying me today is Mr. Thomas Graham, who is from the law firm of Patton, Boggs & Blow, our international trade counsel.

We greatly appreciate this opportunity to testify before your subcommittee and to talk about U.S.-Japanese economic relations and particularly how they apply to rice.

As far as rice is concerned, our problem is one of third country market displacement. When you examine the rice issue in Japan and how it affects U.S. rice exports, you are talking about a classic export subsidy case.

Representative Richmond, as you know, you very actively participated in the development and the passage of the Rice Production Act of 1975 which essentially removed the administrative and statutory restrictions on rice production.

In affect, the Congress told the U.S. rice industry to get out and market its product in the world market and derive its income from the market and to get away from Government programs, which we have done.

I am very happy to report, Congressman, about the time that you were considering the proposed rice legislation, approximately 65 to 70 percent of our exports were dominated by the Public Law 480 program which is a soft loan conventional credit export program. This year our exports will exceed 3 million tons, of which 90 percent will be for cash and only less than 10 percent will be for Public Law 480. So you can see we have had a record of prodigious growth. Therefore, the rice industry is extremely interested in aggressively marketing its product in the world market without being displaced by unfair competition.

As you know, the rice policy of Japan has been described very briefly by the Secretary and it has resulted in a substantial buildup of surplus stocks. These stocks amounted to about 6.5 million tons in 1980. Now when you consider that total annual trade of rice in the world market is about 13 million tons, 6.5 million tons is an alarming stock level. The Japanese Government proceeded to implement an export program where they began dumping rice into the world market. I used the word "dumping" because they subsidized their rice production at around three to four times the world market level.

The U.S. rice industry became extremely alarmed about this situation and began pushing our Government to make the necessary representations to the Japanese Government. The end result in all this was that a U.S.-Japanese rice agreement was negotiated and agreed upon back in April of 1980

Just prior to the negotiation of the agreement, the rice industry filed a section 301 complaint complaining about displacement of U.S. rice exports to Indonesia and Korea.

This complaint was withdrawn after the U.S.-Japanese rice agreement was negotiated. I must say that we were very unhappy with the agreement. I felt that this was another case of the Japanese playing the tune and the United States danced to it.

We had, I felt, very poor negotiators on the scene. We went in holding aces and we negotiated like we held deuces. Judging from what I have heard from the other witnesses this morning, I would say this has been more characteristic than the exception.

As I mentioned, we felt that the agreement did not take care of our problem. All it did was to institutionalize the export subsidy that the Japanese were paying and to give an official blessing to subsidized Japanese rice exports even though they were on a restricted basis.

Because of this dissatisfaction, hearings were held on February 29 of this year, by the House Cotton, Rice, and Sugar Subcommittee, chaired by Mr. Bowen. An entire day was devoted to examining the agreement and the problems that developed from it. All I can say is is that we continue to be unhappy with the agreement, but we do have it and we are going to see that it is carried out and implemented as fully as possible.

Representative Richmond, I would be very happy to answer any questions that you may have. Thank you.

[The prepared statement of Mr. Gabbert follows:]

Prepared Statement of J. Stephen Gabbert

Mr. Chairman and members of the subcommittee, my name is J. Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA). Founded in 1899, the RMA is one of the oldest agricultural trade associations in the United States. Our 36 members, comprising both farmer-owned cooperatives and privately-owned concerns, process virtually all of the rice produced in this country.

Accompanying me today is Mr. Thomas R. Graham of the law firm of Patton, Boggs & Blow, international trade counsel for RMA.

Mr. Chairman, we greatly appreciate the opporutnity to testify before this Committee and to review serious problems that the United States' rice industry has encountered not in exporting to Japan, or in competing with imports from that country, but in encouraging the Japanese to live up to the letter and spirit of trade agreements with respect to rice export sales to third country markets. In essense, Mr. Chairman, the United States has the most competitive rice industry in the world, but recently some of our traditional overseas markets have been threatened by highly subsidized Japanese exports.

JAPAN'S PROGRAM OF EXPORT SUBSIDIES

For some years, the Government of Japan has paid rice growers enormously high prices. These prices have ranged as high as four times the world price for rice of comparable quality. This price-support program, in apparent defiance of common sense, has encouraged expanding supply despite continuously decreasing consumption of rice by the Japanese people. Predictably, the program has led to the accumulation of huge stockpiles of rice.

The Japanese Government has been disposing of these stockpiles by exporting rice at or below world prices, which are far lower than the prices that the Japanese Government pays to its growers to accumulate the stockpiles. Thus the Japanese Government, by absorbing enormous losses on its export sales of rice, engages in a classic export subsidy that violates Japanese obligations under the General Agreement on Tariffs and Trade (GATT) and the Tokyo Round Agreement on Subsidies and Countervailing Measures (Subsidies Code).

Japan initiated its program of dumping rice into the world market in 1979, when it was faced with a surplus of more than six million metric tons—an overwhelming surplus considering that the quantity of rice traded internationally is only about 13 million metric tons annually. Two of the key markets to which the subsidized Japanese rice was offered were Indonesia and the Republic of Korea, which for years have been among the largest purchasers of American rice. Indonesia, which received rice under P.L. 480, has begun to "graduate" from the program to be a commercial rice buyer. Korea, which used to be a P.L. 480 customer, is now a primary cash market for U.S. rice, accounting for over 33 percent of our 1980/81 total exports. Together, these two nations accounted for a significant proportion of all rice purchased on the international market last year.

The potential displacement of American rice sales to these markets by Japanese export subsidies, as well as the threat of price destabilization in general, caused alarm within the United States' rice industry, and we took action. In doing so it was not, and it still is not, our intention to question the wisdom of a Japanese policy that encourages production in the face of declining demand. Nor are we merely attempting to shut off competition. The American rice industry, Mr. Chairman, welcomes competition, if that competition is fair, and if our competitors show the same respect for international trading principles that we and our Government have traditionally shown. We took action because we were concerned—and so was the United States Government—about heavily subsidized exports of surplus Japanese rice that were displacing our non-subsidized exports in third country markets, and particularly in Indonesia and Korea.

ACTIONS BY THE U.S. RICE INDUSTRY

After numerous and unsuccessful attempts were made to negotiate a halt to the Japanese rice export subsidy program, the RMA, Millers' Association, in April 1980, filed with the Office of the United States Trade Representative a complaint pursuant to Section 301 of the Trade Act of 1974. That statute allows private parties to raise with our Government their claims that foreign nations are committing unfair trade practices. We argued that the Japanese export subsidy program was unreasonable on its face, since the amount of subsidy so vastly exceeded the value of the commodity subsidized. We also argued that the subsidy program violated the GATT, the Subsidies Code concluded in the Tokyo Round of Multilateral Trade Negotiations, and the Surplus Disposal Principles of the U.N. Food and Agriculture Organization.

(1) GATT

Violations of the GATT entailed by the Japanese export subsidy program are many and straightforward. Article XVI(1) of the GATT requires notification to the other Contracting Parties when an export subsidy program results in a higher level of exports than would obtain absent the subsidy. Japan gave no such notice and entered no consultation with the United States before beginning large-scale dumping of subsidized rice into third country markets.

Article XVI(3) of the GATT commits signatory states to "seek to avoid the use of subsidies" on the export of agricultural products. Yet Japan, by buying rice from its farmers at very high prices and reselling the rice for export at a fraction of its cost, is subsidizing those exports, just as surely as if cash grants were being distributed. Article XVI(3), moreover, flatly prohibits the use of agricultural export subsidies in order to acquire for the exporting nation "more than an equitable share" of world trade in the commodity.

Mr. Chairman, in the three years before the beginning of its export drive, Japan sold less than 100,000 metric tons of rice abroad. In the years 1978 through 1980 its combined exports exceeded 1.3 million metric tons. You will recall that the total world export trade in rice is currently only about 13 million tons annually. Japan has gone from negligible participation to becoming a major rice exporter.

(2) The Subsidies Code

The new Subsidies Code, which was endorsed and implemented by the U.S. Congress in the Trade Agreements Act of 1979, recognized (in Article 3) "that subsidies may cause adverse effects to the interests" of the signatories. The parties—including the U.S. and Japan—agreed that they would seek to avoid causing "serious prejudice" to each other's interests. In particular, they acknowledged that prejudice results when subsidized exports displace unsubsidized sales in third country markets. Article 10 of the new Code contains an express reaffirmation of the GATT commitment not to use export subsidies to gain more than "an equitable share" of the world market.

But Article 10 goes further than the GATT in two relevant respects. It specifically cites displacement in third country markets as evidence of inequity, and hence as a violation of the Code. And it defines "an equitable share" by reference to the three previous calendar years. As I noted earlier, Mr. Chairman, during the last three years Japan has suddenly become a major exporter of rice.

Mr. Chairman, all of this plainly means that Japan's export subsidy program is a violation of internationally accepted trading principles and of the legal rules that govern them. Japan's failure to consult with other rice exporting nations, as it is required to do under the Surplus Disposal Principles of the U.N. Food and Agriculture Organization, is yet another illustration of the illegality of the export subsidy program.

THE U.S.-JAPAN RICE AGREEMENT

In Tokyo in April 1980, a negotiating team lead by Under Secretary of Agriculture, Dale Hathaway, concluded an agreement with the Government of Japan. In that agreement, Japan promised to limit the quantities of its subsidied exports over the following four fiscal years to a total of 1.4 million metric tons or 400,000 metric tons per year. The agreement, which was concluded while the industry's Section 301 complaint was under investigation, did not eliminate the Japanese export subsidy program.

The rice industry was not happy with the agreement and official approval of Japan's illegal subsidy practices. The agreement did not expressly state the principle which the industry considered was the whole reason for negotiating it. This is the principle of additionality: that Japanese subsidized exports must be purely additions to—and never displacements of—world trade in rice. In addition, to assure that Japan, and not the United States, is the world's residual supplier of rice, selling only when unsubsidized export availabilities are exhausted, the agreement should have provided that Japan was not to undersell the U.S. price for rice or comparable quantity, landed at the port of destination.

Despite these obvious and serious shortcomings of the agreement, The Rice Millers' Association withdrew its § 301 petition before the deadline for acceptance by the U.S. Trade Representative. We stated in our withdrawal notice that we reserved the right to resubmit our complaint in the event that the principle of additionality was not being observed.

Mr. Chairman, our worst fears and reservations about the agreement turned out to be amply justified. To date, the agreement has not adequately defended the American rice industry from injury. Rather, it appears to reaffirm the orthodox free trade view that government intervention in the world marketplace inevitably results in retaliation by other governments, or to harm to private interests. In particular, in late 1980 an exception was granted to Japan by the U.S. Government that permitted the Japanese to export subsidized rice in a quantity equal to the total amount covered over two and one-half years of the agreement's life, at a time when the United States still had a substantial quantity of rice available for export.

In February, 1981, the Cotton, Rice, and Sugar Subcommittee of the House Committee on Agriculture held hearings to try to establish what went wrong in the U.S.-Japan rice agreement, and why. What emerged from those hearings was a picture of a United States government unsure about its internal allocation of responsibilities, and perhaps all too willing to sacrifice trade principles for political ends. The Subcommittee did our industry and American exporters generally a valuable service, not only by exposing the bureaucratic confusions that undid the U.S.-Japan agreement, but also making, in the early days of the new Administration, constructive suggestions for the avoidance of similar problems in the future.

We believe that there are important lessons to be learned from this recent experience.

The United States Government must take a consistent and firm stand against the use of agricultural export subsidies. It must reaffirm the Codes that were signed in Geneva, and in doing so, the U.S. Government must announce clearly to the world that all other signatories—including Japan—will be expected to honor that Code as well. Experience has repeatedly shown that, once breached, international agreements quickly become worthless, unless the breach is firmly and promptly condemned.

CONCLUSION

Mr. Chairman, my appearance here today is in no way motivated by enmity toward any of this nation's trading partners. I am not unmindful of the enormous importance of Japan as a market for U.S. agricultural exports, or of the close political and economic ties between our two countries.

Rather, I have told this Committee the story of Japanese rice export subsidies, the agreement intended to restrict them, and our failure to achieve that goal, to illustrate a broader principle. I believe that a dedicated adherence to that principle will benefit both the United States and Japan, by expanding world trade and by fostering increased prosperity.

Thank you very much.

Representative RICHMOND. Mr. Gabbert, this graph here, of course, shows the retail price of rice in Japan being slightly less than double the retail price in the United States. It doesn't include the government subsidy.

Now my understanding is that if we are to have free and open trade with the Japanese, if they once and for all decide it really wasn't in their best interest to grow rice at this incredibly high subsidy, certainly their surplus would disappear very quickly once the government stops subsidizing it.

What are the basic costs—we can deliver rice to Japan for $400 a ton and make a profit; is that right?

Mr. GABBERT. Very much so; yes.

Representative RICHMOND. John Block tells me at $400 we would be very happy.

Mr. GABBERT. That is correct.

Representative RICHMOND. That same quality for that same ton of rice in Japan requires how many dollars?

Mr. GABBERT. Just on the government subsidy basis, around $1,300, depending on what the exchange rate is; but it's a factor of three or four times.

Representative RICHMOND. Now why doesn't the Japanese consumer demand that his government stop wasting money on a handful of rice farmers who could just as well be working in factories or growing vegetables, and why doesn't the Japanese consumer demand that his cost of living go down?

Mr. GABBERT. I was in Japan several months ago and I had the pleasure of meeting with the Finance Minister who used to be the Minister of Agriculture. I asked him the same question and he looked at me and he said, "Mr. Gabbert, I would be very happy to have you go and explain that to my farmers." As you know, the LPD derives its political power from the rural area. As you indicated earlier, they have not redistricted their district.

Representative RICHMOND. Representing less than one-half of 1 percent of the population of Japan. Why should 600,000 people totally destroy relations with the United States, with consumer costs high in their own country, and with the ability of the Japanese to continue shipping us these highly manufactured electric goods? You know, we Americans aren't going to sit back supinely forever. One of these days somebody is going to make Americans aware of this one-way street we have with Japan.

Mr. GABBERT. I hope these hearings will do that, Congressman, I think the Japanese Government basically has simply transferred the economic consequences of its inability to take action and they have transferred it to U.S. producers.

Representative RICHMOND. And Japanese consumers.

Mr. GABBERT. I think it's high time that some action be taken. We certainly appreciate this forum.

Representative RICHMOND. Well, certainly we're going to keep at it until we finally get the American people to hear our message. I think once the American people start buying Japanese goods a little more selectively that will be the loudest, clearest message we can send back to Japan, don't you?

Mr. GABBERT. Yes.

Representative RICHMOND. It's so clearly unfair, unequal, and probably illegal, but I think some of us have to get together and change this association we have. It's all a one-way street.

On the concept that Japanese are our poor little brothers, you and I know they are anything but our poor little brothers. They have 100-percent literacy. They live 4 years longer than we do. They have much less hypertension, cancer, stroke. They are the best dressed people I've ever seen in my whole life, with the same income as we have. They have no obligations to defend themselves. They have everything going for them and they refuse to meet us even part of the way. I hope we all can get together and get this message across and I certainly appreciate you coming, Mr. Gabbert.

Mr. GABBERT. Thank you.

Representative RICHMOND. John T. Lesley, former general manager of Seald Sweet, Inc., and chairman, Trade Advisory Council of the Florida State Department of Citrus. Mr. Lesley, I'm glad to see you. I know we chatted before this hearing started.

STATEMENT OF JOHN T. LESLEY, CHAIRMAN, TRADE ADVISORY COUNCIL, FLORIDA STATE DEPARTMENT OF CITRUS, ACCOMPANIED BY WILLIAM AMORY UNDERHILL, FLORIDA CITRUS MUTUAL; AND DON RUBEL, FLORIDA CITRUS COMMISSION

Mr. LESLEY. I am John T. Lesley, of Tampa, Fla. At the presen time I am chairman of the Trade Advisory Council of the Florida State Department of Citrus. In the past I have been a commissioner of the Florida Citrus Commission, which acts as a board of directors for the Florida State Department of Citrus. I an a grower of citrus fruits, and prior to my retirement I was general manager of Seald Sweet, Inc., a large Florida cooperative handler of fresh and processed citrus fruits.

It gives me a great deal of pleasure to be here before you today on this very important matter, and I'm accompanied by Amory Underhill, representing the Florida Citrus Mutual, and Don Rubel, representing the Florida Citrus Commission.

The Japanese market has been an extremely important one for fresh grapefruit from Florida for the past 10 years. The Japanese liberalized imports of fresh grapefruit in June 1971. Since then, this market grew rapidly for fresh Florida grapefruit. This past marketing season, 1980–81, Florida exports 6.1 million cartons of fresh grapefruit to Japan, which was our largest offshore export market. Total Florida fresh grapefruit shipments to all markets amounted to 32.1 million cartons, so you can appreciate the significance of the Japanese market to us.

But for fresh oranges, and for orange and grapefruit juices, the Japanese market maintains very restrictive import quotas. These, of course, are illegal under the GATT. The Japanese import quotas this past season on oranges and orange juice combined were equivalent to about 2 percent of an average Japanese orange crop. And as you might expect, Japanese orange prices were high. Sample prices this past winter and spring show Japanese market prices for their own Mikan oranges about twice as high as Washington, D.C., orange prices, and about the same level as Stockholm prices of oranges—all of which are imported. But Tokyo prices of imported oranges—practically all of which were from the United States—California-Arizona—were six times as high as Washington, D.C., orange prices.

The current Japanese import quotas for fresh oranges and for orange and grapefruit juices were established in the Tokyo round negotiations. A schedule of quotas increasing each year from the 1979 through the 1983 Japanese fiscal years was set forth. And for fresh oranges the Japanese agreed to expand the list of license holders and permit new importers to participate.

Of course, we continue to urge for liberalization of Japanese orange imports and the removal of their illegal import quotas. But since the United States has agreed to the continuance of the quotas through the 1983 Japanese fiscal year, we urge the U.S. Government to press for an increase in the announced quotas for the 1982 and 1983 Japanese fiscal years.

In addition, we believe that two changes should be made in the fresh orange import quota program.

First, the licenses should be issued early enough so that the opportunity fcr significant trade in Floride oranges will exist. The licenses were not issued until April 16, 1980, and until April 3 of this year for the import quotas for the first half of the respective Japanese fiscal years, which start on April 1. And since it takes roughly 6 weeks from the time that charter arrangements are started until fruit from Florida arrives in Japan, Florida oranges are precluded from entering the Japanese market in large quantities during April any May—which are the months that Florida oranges have the best market opportunity in Japan.

Second, the share of the increase in quotas which has been allocated to new importers should be increased. Last spring, U.S. Trade Representative Askew wrote the Japanese that "a much larger amount would have been fair and equitable." We believe that at least three quarters of the increase in quotas should be allotted to new importers, rather than the 25 percent of the increase that they received last spring.

With respect to the quotas for orange and grapefruit juices, we have comments to make.

First, there should be no quotas on imports of grapefruit juice. Japan produces no grapefruit commercially and imports of fresh grapefruit already are liberalized.

Second, the licenses for imports of orange juice are issued to Japanese orange juice producing organizations. This is like issuing licenses to import Japanese automobiles to General Motors, Ford, Chrysler, et cetera.

Finally, the Japanese authorize importation of orange juice only for blending with Japanese Mikan juice. Although this is very desirable, this is a limitation not contemplated in the United States-Japanese Tokyo round negotiations, and is in itself an illegal trade barrier which should be removed.

Thank you very much, Representative Richmond, for the opportunity to appear before you.

Representative RICHMOND. Thank you, Mr. Lesley.

Mr. Lesley, to your knowledge, do any other of our major trading partners in the world have these artificial barriers to keep citrus products out of their countries?

Mr. LESLEY. Well, the only areas that can go in there, of course, are in the off-season, like South Africa and things like that. California, who Mr. Heron will speak for in just a few minutes, go in there practically the year round too.

Representative RICHMOND. What I mean is, do any other of our major trading partners put up as rigid artificial barriers against our American citrus?

Mr. LESLEY. Excuse me. I did not understand the question. You're absolutely correct; they do not. There's nobody that has the artificial barriers that Japan has.

Representative RICHMOND. In other words, we have our Nation's largest trade deficit with Japan and the only country that really puts up massive barriers against our products like citrus is Japan?

Mr. LESLEY. You're correct, sir. That's absolutely right.

Representative RICHMOND. This is just something we've got to get across to the American people somehow.

Mr. LESLEY. Yes, sir.

Representative RICHMOND. Now on grapefruit that we ship from Florida to Japan, how would it compare in price? There are no Japanese grapefruit, but what would it cost? Six times more in Japan than in Washington, D.C.?

Mr. LESLEY. That's on oranges.

Representative RICHMOND. What are grapefruit?

Mr. LESLEY. On grapefruit, the grapefruit is in free trade there. The Japanese allowed that earlier and we have a pretty good pricing setup on grapefruit in Japan, although there's a good margin.

Representative RICHMOND. Can the consumer buy grapefruit there for a reasonable price?

Mr. LESLEY. A very reasonable price, yes, possibly twice as much or maybe three times as much as you pay in Washington, but still it's a fairly reasonable price because we have the free trade here.

Representative RICHMOND. There's no real reason why they should pay much more than we pay in Washington for grapefruit?

Mr. LESLEY. No, but they do in part of their season have the 40-percent tariff on it.

Representative RICHMOND. Again, protectionism which we ourselves don't have in this country?

Mr. LESLEY. Yes, sir.

Representative RICHMOND. Now the season for Mikan oranges is when?

Mr. LESLEY. The season for Mikan oranges is roughly December, January, and February. They trail off in March.

Representative RICHMOND. Well, then, why should we have problems in shipping Florida oranges in April and May?

Mr. LESLEY. We have tried to make that point to the Japanese many, many times and have failed.

Representative RICHMOND. What do the Japanese do for oranges?

Mr. LESLEY. They get these licensees to come in and they have what they call a summer orange there which is a very, very poor quality tangelo-type orange.

Representative RICHMOND. They really only produce oranges 3 months a year?

Mr. LESLEY. That's their major season.

Representative RICHMOND. Wouldn't you think they would buy Florida and California oranges the rest of the year?

Mr. LESLEY. I'm quite sure they would.

Representative RICHMOND. If they didn't have all these artificial barriers?

Mr. LESLEY. If they didn't have all these artificial barriers.

Representative RICHMOND. And there's no question, Mr. Lesley, that Mr. Heron can ship oranges from California to Toyko at the same identical price that it costs him to ship them to Washington, D.C.?

Mr. LESLEY. I would say the costs would be the same.

Representative RICHMOND. Other than one goes by railroad and the other goes by refrigerated ship?

Mr. LESLEY. That's right.

Representative RICHMOND. I'm certainly glad you came here this morning and I hope we can get this message across to other people.

Mr. LESLEY. Thank you very much.

Representative RICHMOND. Our next witness is Julian Heron, of the California-Arizona Citrus League.

STATEMENT OF JULIAN B. HERON, JR., COUNSEL, CALIFORNIA-ARIZONA CITRUS LEAGUE

Mr. HERON. Thank you, Representative Richmond. I'm here on behalf of the farmers in California and Arizona and they wish to convey their thanks to you and your subcommittee for looking into this very serious problem.

The prepared statement has been submitted and if it will be inserted into the record my remarks will be summarized.

Representative RICHMOND. Without objection, so ordered.

Mr. HERON. Thank you, Congressman.

The citrus industry in Arizona and California believes in a philosophy of international trade. It has no objection to the Japanese fresh oranges that enter the United States. It has no objection to the Japanese canned mandarins that enter the United States. It does believe that it's time Japan recognized that it's a fully developed country, that it accepts its worldwide obligations and responsibilities, and conduct itself as a responsible citizen in world trade.

The citrus industry in California and Arizona exports approximately a third of its total production. All of the countries of the Pacific are natural markets for California and Arizona, and Japan is certainly an ideal market. As a matter of fact, it's slightly cheaper to export to Japan than to deliver to New York City.

Representative RICHMOND. It's slightly cheaper to deliver to Tokyo than it is to New York City?

Mr. HERON. Yes, sir, because of the benefits or water transportation.

Representative RICHMOND. Yet the Japanese consumer pays how much more for that orange when it lands in Tokyo?

Mr. HERON. It would be anywhere from approaching six times the difference in price.

Representative RICHMOND. In other words, we're able to buy California oranges here in Washington three for a dollar?

Mr. HERON. That's correct.

Representative RICHMOND. And they would have to pay three for $6.

Mr. HERON. That's correct.

Representative RICHMOND. Even though you can ship those same oranges from California to Tokyo even cheaper than you can ship them to New York City or Washington?

Mr. HERON. That's correct. The Japanese, as does the entire oriental population, reserves a very special place for citrus fruit in its overall diet, so it's much in demand. The best example of that was a few years ago in the case of lemons where the Japanese imposed some restrictions on lemons. The price per lemon with the limit of one per customer rose to $5 a lemon. There's no lemon worth $5, but that's what they were paying for it in Japan with a limit of one to a customer.

Representative RICHMOND. We were paying in the United States 20 cents, I suppose?

Mr. HERON. That's correct, in the better markets. So it's just incredible.

Now we have, through the MTN process under Ambassador Strauss, made some progress toward increasing the quota limit, but no progress toward removal, of the quota. The Japanese as you know, Representative Richmond, and the subcommittee members, think nothing of swarming Washington with representatives from their Diet, from their companies, employing Americans to represent Japan to insist that there be no restriction on automobiles or whatever other product there may be, and they work very diligently and they are to be commended for it. However, when the United States says, well, let's talk about lifting your quotas on beef or let's talk about eliminating your rice subsidies or let's talk about removing the quota on fresh oranges or orange juice or grapefruit juice, the Japanese say, "We have a political problem."

It's suggested that the representatives from Michigan have a similar problem and it's a matter of perception and certainly one that the Japanese need to recognize or that the United States just finally has to say we can't force you to do anything as a sovereign country, but we can certainly act here and we are going to.

Representative RICHMOND. Japan has put 150,000 American autoworkers out of work. How many thousand people do you think grow citrus in Japan?

Mr. HERON. I don't know the precise number. Most of the Japanese citrus is grown, converting hectares to acres, on farms of anywhere from ½-acre farms to 2 acres. Most of those people do it in their spare time and spend most of their gainful employment in the factories of Japan exporting to other countries.

Representative RICHMOND. So it's not the lifeblood of Japan the way the citrus industry is the lifeblood to California and Florida?

Mr. HERON. That's correct.

Representative RICHMOND. We've just got to get people to realize that.

Mr. HERON. Absolutely. The United States is very good in keeping off restriction on imports. It's very good to talk about the need to export. Where it needs to begin to perform is in translating the conversation about exports into actual sales that are accomplished through removing trade barriers.

Thank you very much, Representation Richmond. I will be happy to respond to any questions.

[The prepared statement of Mr. Heron follows:]

PREPARED STATEMENT OF JULIAN B. HERON, JR.

My name is Julian B. Heron, Jr., Counsel for the California-Arizona Citrus League. The League is a voluntary nonprofit trade association composed of marketers of California-Arizona citrus fruits. Members are farmer cooperative and independent shippers which represent over ninety percent of the 10,500 citrus fruit growers in Arizona and California. These growers produce oranges, lemons, grapefruit, tangerines and limes. This fruit is marketed in both fresh and processed forms.

The League speaks on behalf of the California-Arizona citrus fruit industry on matters of general concern such as legislative, foreign trade and other similar topics. Representatives of the League have devoted much time and effort to the promotion of exports and have concerned themselves with international trade problems since early in the 1920's.

JAPAN

Over the past five years (1975–1979) the United States has had an average negative balance of trade of $17.3 billion. Generally this is attributed largely to the recent U.S. need for imports of oil, and that the big world gainers have been the OPEC countries. But, one country, not an oil producer, accounts for 43 percent of our negative trade balance, that country being Japan. A substantial part of the negative balance results from Japanese import restrictions (quotas as exhorbitant duties) on agricultural commodities. These quotas were initially imposed, years ago, for legitimate "balance of payment" reasons pursuant to GATT provisions. As such justification no longer exits, U.S. authorities need to move aggressively to secure their removal.

One of the major impediments to creating a healthy trading relationship with Japan is the existence of excessive duties on, and import quotas for, fresh oranges and certain citrus products. The Japanese duties on fresh oranges are 40 percent from December through May and 20 percent from June through November.

Japan also maintains an import quota on fresh oranges and citrus juices. Although the quota was recently increased as a result of the Multilateral Trade Negotiations, it is still extremely low and is equivalent to less than 3 percent of the Japanese Mikan (tangerine) production.

JAPANESE ORANGE QUOTAS

Japan for years, has maintained quotas on the importation of fresh citrus and citrus juices. The present level of these quotas for Japanese fiscal year 1981 is 72,500 metric tons of fresh oranges, 5,500 metric tons of orange juice and 4,000 metric tons of grapefruit juice. The size of these quotas resulted from minor progress in the multilateral trade negotiations.

Japan removed the quota on fresh lemons in 1969. The quota on fresh grapefruit was removed by the Japanese government ten years ago in 1971. It is time for the Japanese government to announce its plans for removal of the fresh orange quota. The same is true with respect to the juice quotas on orange juice and gradefruit juice.

Japan is a fully developed country and must conduct itself as such. This administration has recently announced a very definite free trade policy. Evidence of this was seen by the restraint used in not restricting imports of automobiles. Further evidence is seen by the recent action allowing increased quantities of footwear to come into the United States. Asian countries enjoy exporting to the United States, but do not wish United States businessmen and farmers to export to their countries. The time for change has arrived. Trade must be a two way street.

JAPANESE ORANGE PRODUCTION

Japan's orange production consists primarily (85 percent or more) of Unshu-Mikans which are more closely related to the tangerine than the orange. The majority of these oranges are sold fresh, although the share processed is constantly increasing.

Whereas less than 20 percent were canned in 1970/71 now more than 25 percent are canned. The United States is the largest market for Japanese canned Mikans, taking nearly one-half of total exports. Yet Japan maintains a quota against U.S. oranges which severely restricts imports.

SUMMARY

Japan is a fully developed nation which must accept its responsibilities in the world. Adjustment in the citrus area may be difficult for Japan, but no more difficult than for Detroit. There is both demand and a good market in Japan for fresh oranges from the United States. Japan should announce its plan for full liberalization now.

Representative RICHMOND. Mr. Heron, I'm in complete agreement with your statement, as you know, and this subcommittee will do do everything it can possibly do in cooperation with Messrs. Baldrige, Brock, and Block to try to get this message loud and clear over to Japan. Certainly the Japanese consumers know much more about this set of hearings than the American consumers.

Mr. HERON. I suspect that's certainly right and there's really no reason for the Japanese, particularly in light of our restraint on automobiles, not to accelerate the entire MTN tariff cut schedule on agricultural products and announce the liberalization of oranges and beef.

Representative RICHMOND. Absolutely. We have the goods. We can sell them, according to you, at one-sixth their own costs.

Mr. HERON. That's correct.

Representative RICHMOND. And still they won't buy it?

Mr. HERON. That's correct.

Representarive RICHMOND. And we know that citrus is as fine a source of vitamin C as exists and the Japanese would be delighted to be adopting the American custom of drinking more orange juice if they could just get it?

Mr. HERON. The minute quotas go off, the oranges will go into Japan. The consumers want it and we all know Japan, Inc., and the Government keep its people in line.

Representative RICHMOND. No matter how rich you are, who can afford three oranges for $6?

Mr. HERON. That's correct.

Representative RICHMOND. Thank you, Mr. Heron.

Mr. Eugene Kilik, president of the Tanners' Council. Now I'm going to hear a tale of woe from the tanners. Mr. Kilik, Mr. Mayer started your testimony and I'm very anxious to hear some more about tanning.

STATEMENT OF EUGENE L. KILIK, PRESIDENT, TANNERS' COUNCIL OF AMERICA, INC., ACCOMPANIED BY ELINOR D. TALMADGE, VICE PRESIDENT

Mr. KILIK. I'd like to thank Mr. Mayer for being so thoughtful in bringing us up.

We are one of the processed agricultural industries that Secretary Block was talking about earlier today and is an important thrust of this administration. Incidentially, the tanning industry is very important to New York State. In New York State there are 70 to 90 tanneries and there are 3,000 to 5,000 people employed in State of New York. I heard at one time that before New York State was called the Empire State there was a considerable thrust to call it the Leather Stocking State.

I represent the leather tanning industry in the United States and with me is Mrs. Elinor D. Talmadge, our vice president, who can fill us in on some of the details I don't know.

To refer back to the question you asked Mr. Mayer on the prices of U.S. leather as opposed to Japanese leather, I think we should start there. The prices are relatively competitive on the wholesale level. Our prices generally are between 10 and 20 percent lower than theirs. Both of our industries depend primarily on U.S. cattle hides and in leather production, rawhides account for roughly 50 percent of the value of the leather.

Representative RICHMOND. Don't the Japanese than their own cattle hides, too?

Mr. KILIK. They don't have any. We have gone through this in the beef situation. Their industry consists of roughly 10 million cattle hides of which they raise 1 million. They import 9 million, 8 of which come from the United States. That's the picture of their industry.

Representative RICHMOND. And we can ship leather to Japan 20 percent cheaper?

Mr. KILIK. Somewhere between 10 and 20 percent, depending on the type. The products are different.

The U.S. tanning industry is the finest, most efficient tanning industry in the world and the Japanese, since we have put a lot of pressure on them, have been trying to emulate us. It's just the opposite from many of the industrial products we have heard about.

In fact, the Japanese leather industry banded together to form the Tanners Council of Japan because we are the Tanners Council of America. At our joint meetings it's the TCJ versus the TCA. We are the successful industry in the world and the Japanese copy us.

In 1977, we filed a 301 petition asking the President to obtain access to the Japanese market and we cited 30 years where the Japanese have given various excuses for their refusal to buy leather. In the years following World War II, the Japanese claimed they had to impose quantitative restrictions because of balance of payment difficulties. This excuse lasted until 1963. Next, the Japanese said the employees in the tanning industry were members of a minority group and because of social problems are unemployable elsewhere in its economy. They believe this minority group is entitled to protection.

In response to our petition, the Japanese leather trade associations responded that the Japanese industry needed protection because they were a poor cottage industry and couldn't compete internationally. If this protection were removed, the Japense leather industry responded, and I quote, "Our industry could never survive, only to disappear if we would let any of these barriers down."

It was only after the U.S. Government took a very firm stand and threatened both retaliatory measures and a complaint to the GATT that the Japanese finally relented and agreed to make a small increase in the quota allowing U.S. leather into Japan. This agreement, which was signed almost 18 months after our original complaint, had two provisions. One was an increase in the quota for U.S. leather, and the second was a provision to facilitate utilization of the quota. Although 2½ years have passed, the Japanese have still not implemented the second part of this agreement for "facilitating the utilization of these quotas."

We don't believe that the Japanese entered into the agreement with the United States in good faith. They never intended to allow filling of the agreed-upon quotas. As evidence of this, after the Japanese had experience in successfully evading the U.S.-Japanese agreement, they entered into similar agreements with the governments of Australia and Canada. The leather industries in these two countries have had the same experience as we in the United States. They just can't sell leather to Japan.

The leather industry of Japan is economically artificial. It depends upon the importation of 90 percent of its raw material. This raw material comes from Canada, Australia, and the United States. The United States provides 90 percent of the Japanese import hide requirements. We believe the only reason that the Government of Japan entered into the agreement with the United States and with Australia and Canada was to still the voices of protest in each of these countries. These protests chorus: "Japan takes our raw material without granting access to our processed products."

When the U.S. tanning industry agreed to the provisions of the U.S.-Japanese leather agreement, it recognized the special considerations the Japanese have toward their leather industry. We agreed to limit access to about 3 percent of the total Japanese market. Even this infinitesimal amount seems completely unsatisfactory to the Japanese. Even to this meager amount they do not allow entry. We have shown good will toward them by not requiring that they open their entire markets. They have not reciprocated in the slightest, but keep reiterating the same shopworn excuses. In one breath they say that their industry is noncompetitive. In another breath they say that the U.S. industry—and I presume they have given the same excuses to Australia and Canada—does not try hard enough.

We testify that we have tried hard enough to penetrate any market. In 1977, when no foreigners were allowed display space at the regularly scheduled leather shows in Japan, the United States industry, in cooperation with the Department of Agriculture, had a U.S. leather show at the U.S. Trade Center in Tokyo. Over 30 companies displayed at this U.S. leather show and received nothing for their efforts.

Later, in 1980 and 1981, following the U.S.-Japanese agreement, U.S. companies were granted admission to the Japanese Tokyo leather show. In 1980, again almost 30 U.S. companies exhibited their leather to potential Japanese buyers to no avail. In 1981, once again U.S. companies spent their time and money to exhibit and once again there was bowing and hospitality but no orders.

Some U.S. companies have made efforts to sell in the Japanese market since 1956. At least one company has had a salaried employee in Japan for a number of years. All efforts have been to no avail.

This is in sharp contrast to the results tanners have achieved elsewhere. In 1980, U.S. tanners exported nearly $275 million in leather to 87 countries. They exported but $5 million to Japan.

In theory the U.S. tanning industry has everything going for it to obtain access to the Japanese market. By the Japanese industry's own admission, the U.S. industry is more competitive in every respect. The Japanese industry sends its personnel to visit the United States to go to our hide training schools and to visit our tanneries to learn our technology. But they won't allow the minimum agreed-upon trade to enter. Their industry wishes to emulate ours, to learn how to utilize U.S. cattlehides the way we do. They want the American style, the American technology. They refuse to buy it and will make every effort to develop it themselves. They do this even though they know that economically it makes no sense.

There are solutions to the U.S. tanning industry's trade problems with Japan. These solutions lie in a firm posture by the U.S. Government. If the U.S. Government insists that the Japanese live up to their agreement to facilitate utilization of the quotas, it will be done. As long as our Government listens and heeds the ever-changing excuses put forth by the Japanese, we will continue to supply them with raw material and we'll never achieve access for our products.

We in the U.S. tanning industry are proud of the efforts that we have made. We are also proud of the magnanimity with which we agreed to the Japanese protection for a huge percentage of their total market. But we are not proud of the fact that our Government has not insisted that the Japanese live up to their side.

In April of this year, a government-industry study team, headed by a representative from USTR, visited Japan in order to determine why the United States-Japanese agreement is not working. When the report of this team is available, we would like to have it added to our testimony.

We are grateful for this opportunity to testify before this subcommittee and to present our testimony on the disgraceful trade relations existing in our sector. We have faith that the Congress will take our testimony seriously and will use its good offices to aid us in convincing our trade officials to be strong and forthright in insisting that U.S. industry gets its proper opportunity to sell its products in free and open competition. Thank you.

[The prepared statement of Mr. Kilik follows:]

Prepared Statement of Eugene L. Kilik

I am Eugene L. Kilik, President of the Tanners' Council of America, Inc., the trade association representing practically 100 percent of the leather tanning industry of the U.S. With me is Elinor D. Talmadge, Vice President of the Tanners' Council of America.

The position of the U.S. leather industry is probably completely opposite from the position of any industry testifying before this Committee. We are not afraid of Japanese competition. We don't have any need to emulate the Japanese in their production and management methods. Quite the contrary, the Japanese leather industry uses the U.S. leather industry as its model. They are trying to emulate everything that we do. Recently, the Japanese leather industry banded together to form the Tanners' Council of Japan because we are the Tanners' Council of America. At our joint meetings, it is TCA and TCJ. We are the successful industry in the world and the Japanese copy us.

In 1977 we filed a 301 petition asking the President to obtain access for U.S. tanners to the Japanese leather market. In our complaint we cited thirty years of excuses that the Japanese have given for their refusal to import leather. In the years following World War II, the Japanese claimed that they had to impose quantitative restrictions against the imports of leather because of payments difficulties. This excuse lasted until 1963. Next, the Japanese said that employees in the tanning industry were members of a minority group who, because of social problems, are unemployable elsewhere in their economy. They believe this minority group is entitled to protection.

In response to our petition the Japanese leather trade associations responded that the Japanese industry needed protection because they were a poor cottage industry and couldn't compete internationally. If this protection were removed, the Japanese leather industry responded, and I quote, "Our industry could never survive, only to disappear."

It was only after the U.S. government took a firm stand and threatened both retaliatory measures and a complaint to the GATT that the Japanese finally relented and agreed to make a small increase in the quota allowing U.S. leather into Japan. This agreement, which was signed almost eighteen months after our original complaint, had two provisions. One was an increase in the quota for U.S. leather, and the second was a provision to facilitate utilization of the quota. Although two and a half years have passed, the Japanese have still not implemented the second part of this agreement for "facilitating the utilization of these quotas."

We don't believe that the Japanese entered into the agreement with the U.S. in good faith. They never intended to allow filling of the agreed-upon quotas. As evidence of this, after the Japanese had experience in successfully evading the U.S.-Japanese agreement, they entered into similar agreements with the governments of Australia and Canada. The leather industries in these two countries have had the same experience as we in the U.S. They just can't sell leather to Japan.

The leather industry of Japan is economically artificial. It depends upon the importation of 90 percent of its raw material. This raw material comes from Canada, Australia and the U.S. The U.S. provides 90 percent of the Japanese import hide requirements. We believe the only reason that the government of Japan entered into the agreement with the U.S. and with Australia and Canada was to still the voices of protest in each of these countries. These protests chorus: "Japan takes our raw material without granting access to our processed products."

When the U.S. tanning industry agreed to the provisions of the U.S.-Japanese leather agreement, it recognized the special considerations the Japanese have toward their leather industry. We agreed to limit access to about 3 percent of the total Japanese market. Even this infinitesimal amount seems completely unsatisfactory to the Japanese. Even to this meager amount they do not allow entry. We have shown good will toward them by not requiring they open their entire markets. They have not reciprocated in the slightest but keep reiterating the same shopworn excuses. In one breath they say that their industry is non-competitive. In another breath they say that the U.S. industry—and I presume they have given the same excuses to Australia and Canada—does not try hard enough.

We testify that we have tried hard enough to penetrate any market. In 1977, when no foreigners were allowed display space at the regularly scheduled leather shows in Japan, the U.S. industry, in cooperation with the Department of Agriculture, had a U.S. leather show at the U.S. Trade Center in Tokyo. Over 30 companies displayed at this U.S. leather show and received nothing for their efforts.

Later, in 1980 and 1981, following the U.S.-Japanese agreement, U.S. companies were granted admission to the Japanese Tokyo Leather Show. In 1980, again almost 30 U.S. companies exhibited their leather to potential Japanese buyers to no avail. In 1981 once again U.S. companies spent their time and money to exhibit and once again there was bowing and hospitality but no orders.

Some U.S. companies have made efforts to sell in the Japanese market since 1956. At least one company has had a salaried employee in Japan for a number of years. All efforts have been to no avail.

This is in sharp contrast to the results tanners have achieved elsewhere. In 1980, U.S. tanners exported nearly $275 million in leather to 87 countries. They exported but $5 million to Japan.

In theory the U.S. tanning industry has everything going for it to obtain access to the Japanese market. By the Japanese industry's own admission, the U.S. industry is more competitive in every respect. The Japanese industry sends its personnel to visit the U.S. to go to our hide training schools and to visit our tanneries to learn our technology. But they won't allow the minimum agreed-upon trade to enter. Their industry wishes to emulate ours, to learn how to utilize U.S. cattlehides the way we do. They want the American style, the American technology. They refuse to buy it and will make every effort to develop it themselves. They do this even though they know that economically it makes no sense.

There are solutions to the U.S. tanning industry's trade problems with Japan. These solutions lie in a firm posture by the U.S. government. If the U.S. government insists that the Japanese live up to their agreement to facilitate utilization of the quotas, it will be done. As long as our governemt listens and heeds the ever-changing excuses put forth by the Japanese, we will continue to supply them with raw material and we'll never achieve access for our products.

We in the U.S. tanning industry are proud of the efforts that we have made. We are also proud of the magnanimity with which we agreed to the Japanese protection for a huge percentage of their total market. But we are not proud of the fact that our government has not insisted that the Japanese live up to their side.

In April of this year, a government/industry study team, headed by a representative from USTR, visited Japan in order to determine why the U.S./Japanese agreement is not working. When the report of this team is available, we would like to have it added to our testimony.

We are grateful for this opportunity to testify before this subcommittee and to present our testimony on the disgraceful trade relations existing in our sector. We have faith that the Congress will take our testimony seriously and will use its good offices to aid us in convincing our trade officials to be strong and forthright in insisting that a U.S. industry gets its proper opportunity to sell its products in free and open competition.

Representative RICHMOND. Thank you, Mr. Kilik.

I wonder whether any of you gentlemen can compare our relations in trade with Japan with those in Taiwan? There are only 17 million people in Taiwan and 110 million in Japan. I have a feeling we probably export more food and agricultural products to Taiwan than Japan. Do you happen to know, Mr. Heron?

Mr. HERON. I can't give you the precise figures, but in the case of citrus I can tell you for both fresh oranges and processed citrus that the Taiwanese do not maintain any quotas and have duty levels that are lower than Japan's for citrus.

Representative RICHMOND. Do you ship more citrus to Taiwan than you do to Japan?

Mr. HERON. I'm not certain on a per capita basis.

Mr. DAVIS. In 1979, the Republic of China set up a United States-Republic of China Economic Council and David Kennedy, the former Secretary of Treasury, is cochairman, and we visit the Republic of China once a year and the Republic of China delegates visit the United States. The Republic of China pays for two representatives to visit their country to help promote U.S. products, especially finished products.

Representative RICHMOND. Especially food products, I suppose?

Mr. DAVIS. That's correct, and food products have increased dramatically—the exports to Taiwan. They have taken an interest and they have listened.

Representative RICHMOND. Mr. Kilik, what you're saying is the Japanese import 90 percent of their hides from abroad, of which 80 percent are imported from the United States; yet they insist on importing them in the rough?

Mr. KILIK. In the raw state, as it drops off the animal is the way they insist upon it.

Representative RICHMOND. You say that American tanned leather shipped to Japan would have a 10 to 20 percent advantage over Japanese if there were not artificial barriers?

Mr. KILIK. Yes, sir.

Representative RICHMOND. That's not quite as dramatic when you hear about three oranges for $6, but it's still quite in our favor. In other words, if I were a company with a $10 million surplus, I would be looking for ways to use Japanese money to save money for my own Japanese consumers.

Mr. KILIK. Most important to us is the job implications.

Representative RICHMOND. Sure.

Mr. KILIK. Exports of raw hides create no jobs. Hides are only the wrapper that the meat comes in, while the leather and the leather products mean a lot of employment to the people here.

Representative RICHMOND. Just like orange concentrate, boxed beef, milled rice, and it's nowhere near the amount of labor involved per dollar as a television set or a camera or an automobile.

Mr. KILIK. That's true, and I think your point with Taiwan is very well taken and is very good in this sector. We have absolutely no difficulty in shipping leather to Taiwan. They ship it and make leather products and ship those leather products all around the world.

Representative RICHMOND. Right back to us?

Mr. KILIK. Much of it made on U.S. leather.

Representative RICHMOND. I thank you gentlemen for coming. I think we are in total agreement that something has to be done, I think perhaps, working together. You're an excellent panel, and I want to thank Kent Hughes and Bill Buechner for putting you all together. Just think of the people you represent, all of you—rice farmers, citrus farmers, Mr. Mayer's entire union, Mr. Kilik's cattle people—just think of all the people. If we could organize all the people we represent to understand this problem, I think that's the quickest way to get those empty round of talks accelerated. I don't think we should wait until 1983. We're being taken day after day after day. I'm totally against waiting until 1983. We must accelerate those talks and I think you six men could do a lot of good toward accelerating them.

We will leave the record open for 14 additional days for any additional comments.

Thank you very much, ladies and gentlemen. The subcommittee stands adjourned.

[Whereupon, at 12:05 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following questions and answers were subsequently supplied for the record.]

85-821 O - 82 - 12

Response of Hon. John R. Block to Additional Written Questions Posed by Representative Richmond

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

SEP 17 1981

Honorable Fred Richmond
House of Representatives
Washington, D.C. 20515

Dear Congressmen Richmond:

Thank you for the opportunity to appear before the Subcommittee on International Trade, Finance, and Security Economics of the Joint Economic Committee. The Department of Agriculture places great importance on U.S.-Japanese agricultural trade and we appreciate your interest in this area.

Enclosed are the answers to your follow up questions.

Sincerely,

John R Block
Secretary

Enclosure

1. You described the MTN agreements as providing a "time of transition for Japanese agriculture."

Question 1a: How far have the Japanese moved in bringing citrus supply and demand into balance?

Answer 1a: The goal of a joint Japanese government-industry plan approved in April 1979 was to reduce the area planted to satsuma (Unshu-Mikan) oranges, the principal citrus variety in Japan, by 74,000 acres to 321,000 acres by 1981. In 1980 the area planted to satsumas was estimated at 334,000 acres, 22 percent below the peak of 427,000 acres in 1973.

The acreage-reduction program has been extended to further reduce the satsuma area to 296,000 acres by 1983. If this plan is fully carried out, satsuma production in 1983 should be around 3.3 million metric tons, satsuma production in 1983 should be around 3.3 million metric tons, compared to a 4 million ton potential in the absence of the area reduction programs.

In addition to these efforts to reduce acreage of satsumas, the Japanese government and grower organizations support fruit thinning in years of bumper crops to reduce crop size. Furthermore, the government has been attempting to promote increased consumption of satsuma juice through advertising, financial assistance for the installation of juice vending machines, and a subsidy for satsuma juice used in school lunch programs.

Question 1b: Do we have someone monitoring the Japanese efforts?

Answer 1b: Around November 1 of each year the U.S. Agricultural Counselor in Tokyo submits a report to the Foreign Agricultural Service on the citrus situation in Japan. This report includes information on progress in Japan in reducing satsuma production and promoting demand for citrus and citrus products.

Question 1c: Your colleague, Ambassador Brock, has recently negotiated an acceleration in the reduction of tariffs on semi-conductors. Could we do something similar with regard to the quotas on beef, citrus, and citrus concentrate?

Answer 1c: The MTN Agreement provides for consultations in late 1982 or early 1983 on ways to achieve an open market in Japan for oranges and citrus juices. Ambassador Brock has raised the idea of advancing the date for the consultations.

2. In your prepared testimony, you noted that there should be government to government negotiations to bring down the tariffs on peanut butter, leather, plywood, certain fruits and other products.

Question 2a: Have talks been initiated on any of these products?

Answer 2a: In the Tokyo Round of the MTN, Japan made tariff concessions on more than 150 agricultural items of trade interest to the United States. Currently, there are no ongoing negotiations on agricultural tariffs, but we would welcome the opportunity at an appropriate future date.

Question 2b: What are the prospects for reducing tariffs on any of these products?

Answer 2b: Japan still maintains comparatively high tariffs on various products. Examples include the 20 percent duty on deboned chicken meat, leather, plywood, and certain fruits and nuts; a 25 percent duty on certain egg products; and the 33 percent duty on peanut butter. Duties on certain of these items now are being reduced as a result of the MTN agreements. For example, the duty on peanut butter will be lowered to 27.5 percent by 1987.

High duties result in higher food costs for Japanese consumers. Consequently, we think there are favorable prospects for eventual lowering of some of the remaining duties. Some of the easier gains, however, were already made during the MTN. Hard negotiations will be required for further progress.

Question 2c: How much do these tariffs penalize U.S. exports?

Answer 2c: Japan's tariffs basically do not discriminate against the United States vis-a-vis other exporters. The tariffs, however, provide a preference to the high-cost production in Japan. Consequently, the high duties substantially impede U.S. exports that compete with Japanese production.

3. I want to ask you several questions about the Japanese interest in achieving 73 percent agricultural self-sufficiency by 1990.

Question 3a: How much will it cost Japan for each percentage point of increased self-sufficiency?

Answer 3b: We are not in a position to speculate on the cost of changing Japan's level of self-sufficiency. However, it is known that the cost of protecting Japan's agriculture is quite high. For example, the total budgetary cost of Japan's rice program alone exceeded $5 billion in 1980.

Question 3c: Can Japan increase its level of self-sufficiency without becoming more protectionist?

Answer 3c: Through more liberalized trade practices Japan would be able to increase self-sufficiency in the production of some commodities in which they are efficient producers--such as poultry and eggs. With more reliance on comparative advantage, imports of products of which other countries are more efficient producers would increase. Japan would be less self-sufficient in these imported products.

Question 3d: If the Japanese achieve their goal of 73 percent self-sufficiency by 1990, how will that affect American exports of agricultural goods?

Answer 3d: First of all, as I indicated in my testimony, by the Japanese calculation they have reached 73 percent self-sufficiency. If imported feed grains, rather than finished livestock products are used in the calculation the self-sufficiency ratio is around 50 percent. The Japanese would like to maintain this level of self-sufficiency as 1990 approaches. For nearly two decades, Japan has consistently been the United States' top agricultural market. U.S. agricultural exports to Japan expanded rapidly in the 1970's reaching $6.1 billion in 1980. This growth period parallels the Japanese increased emphasis of self-sufficiency. Agricultural exports to Japan are expected to reach $7 billion in 1981 calendar year.

Question 3e: Japan has decided to continue to rely on other countries, particularly the United States for their global security needs. Why then are they unwilling to depend on us for a greater percentage of their agricultural imports?

Answer 3e: Japan is following an agricultural policy aimed at maintaining Japanese farm income, maximizing self-sufficiency and developing secure sources of food supplies for products that must be imported. Towards this latter goal the Japanese have concluded grain supply agreements with Australia and Canada and with the United States from 1975-1978. The U.S.-Japan agreement has been superceded by the annual agricultural consultations. The government has also encouraged private investment in agricultural production in third countries. The U.S. continues to be Japan's principle supplier and we would expect that the mutual benefit of this agricultural trade will continue.

4. You have painted an interesting picture of the long term commitment of American agriculture to market in Japan and the extensive cooperation that has been forthcoming from the American Government. In fact your description of how we attempt to market agricultural products sounded almost Japanese in the way in which the public and private sectors worked together.

Question 4: Is there any reason we could not develop the same type of cooperative spirit in marketing industrial products?

Answer 4: The Department of Agriculture views the Foreign Agricultural Service cooperator program as an important and viable instrument of agricultural trade promotion and expansion. However, as you are aware questions concerning industrial trade are addressed by the Department of Commerce.

5. In your testimony you mentioned how the Japanese rice program had hurt U.S. exports of feed grains.

Question 5a: How much has the United States lost in terms of exports?

Answer 5a: Disposal of Japanese rice as a feed ingredient will displace corn and sorghum in feed rations on a roughly one to one basis. During the Japanese fiscal year which began April 1, 1981, it is planned that 360-450,000 tons of rice will be used for feed and 500,000 tons per annum will be used in each of the following three years. Assuming that the U.S. share of the loss was proportionate to that of other suppliers the U.S. would lose about 400,000 tons per annum of feed grain exports to Japan.

Question 5b: If Japan actually adopted a free market approach to rice would that virtually eliminate Japanese rice production? Where would she get most of her rice supplies? How much of the market would be supplied by the United States?

Answer 5b: If Japan allowed rice to be imported without restriction and allowed its domestic price to fall to world price levels, Japanese rice production would decline somewhat and necessitate rice imports. Assuming that the rice imported was a rice similar to that produced domestically, the U.S., Australia, China, and Taiwan would be the likely suppliers. We have no basis for estimating what the U.S. market share would be.

Question 5c: How does Japan deal with imports of processed rice products? Are these also controlled by tariffs and quotas? If so, how do such restrictions affect U.S. exports?

Answer 5c: The trade structure of Japan is such that the import of bulk commodities is encouraged while the import of value-added, or processed, farm products is discouraged. For example, wheat (of which the U.S. provides 55-60% of total Japanese imports) enters duty free while processed pastry products enter under 24-40% ad valorem tariffs. Japan has made considerable progress in reducing trade barriers and the U.S. will continue to actively encourage this process. We recognize it as an important avenue for export expansion.

Question 5d: Have Japanese rice stocks also competed with U.S. exports to third country markets?

Answer 5d: The surplus disposal of Japanese rice through exports has competed directly with U.S. rice to selected markets, e.g., Korea.

Question 5e: In general terms, how much can we expect the United States Government to support our domestic rice industry? For instance how much of a role does the USDA play in formulating U.S. trade policy with regard to subsidized exports?

Answer 5e: The U.S. Government in addition to the current system of extension, research, and support prices, works closely with the U.S. Rice Council to promote expanded exports. Concerning the formulation of U.S. trade policy regarding the subsidized Japanese rice exports, USDA has been designated as the lead agency in overseeing the implementation of the U.S-Japan Rice Understanding.

Question 5f: What role will industry groups have in the forthcoming U.S.-Japan rice agreement?

Answer 5f: USDA cooperates closely with the Rice Millers Association regarding the implementation of the U.S.-Japan Rice Understanding.

6. At present we ship a great many logs to Japan but almost no lumber.

Question 6a: How can we reverse that pattern to keep more of the value added in the United States?

Answer 6a: In order to achieve a more-favorable ratio between lumber and log exports to Japan annual industry-to-industry and government-to-government talks were initiated in 1980. During industry-to-industry talks in June/July of this year, the Japanese announced that they were experiencing a fundamental structural decline in demand for lumber which will result in a permanent reduction in the domestic saw milling capacity. It is likely that this reduction in demand for lumber will reduce imports of logs and lumber, and because of the resultant reduction the domestic milling capacity, increase the proportion of imported lumber.

Thus, due to changes occurring in Japan, we will have an opportunity to expand our market share of Japanese lumber imports. Although lumber exports to Japan have been very small relative to logs, we have made significant gains in the last several years. In 1978, our softwood lumber exports from Washington and Oregon to Japan were 163 million board feet. This rose to 356 million in 1979 and to 362 million in 1980.

Question 6b: How well has the Canadian system worked in increasing lumber exports to Japan?

Answer 6b: The Canadian system resulted in sizeable increased in exports from British Columbia to Japan. Their exports of softwood lumber to Japan rose by 39 percent from 1978 to 1980. Three primary factors appear to have contributed to the strong Canadian position. Lower stumpage rates combined with the Canadian dollar valued considerably below the U.S. dollar have given Candian exporters a significant competitive edge over U.S. exporters. Additionally, the Canadians have established a promotional office in Japan and are operating an aggresssive market development program which has intensified as their most important market (the U.S.) has weakened the last few years. They have successfully copied for softwood lumber what the Foreign Agricultural Service has been doing for many years in Japan for wheat, soybeans, feedgrains, etc.

Question 6c: If we started to cut lumber to Japanese specifications would we be able to dominate the Japanese market or would there still be major trade barriers?

Answer 6c: Cutting U.S. lumber to Japanese specifications would place U.S. exporters in a more competitive position vis-a-vis Canadian exporters. According to the Japanese, about 30 percent of the lumber imported from Canada is "custom cut." It would not, however, alter the competitive advantage that the Canadian exporters derive from lower stumpage costs and currency exchange relationships. It would not neutralize the benefits accruing to Canadian exporters from their market development activities, nor would it alter the impact of Canadian policy which restricts log exports.

Question 6d: In the interest of exports, should we lift the ban on exporting logs from national forests?

Answer 6d: We do not recommend the lifting of the ban on exporting logs from National Forests. There is presently a shortage of logs available from domestic processing especially in the Pacific Northwest where log export is most active. This shortage will become more severe during the next 20 years as the projected supply of logs from private lands decline. Lifting the ban would aggravate the supply problem, increase stumpage prices, and contribute to mill closings and unemployment. Our efforts should be directed toward processed timber exports.

Question 6e: Currently, no logs from the National Forest System are allowed for export. There have been, and continue to be, attempts to expand that ban to the areas of substitution and third-party substitution. What has been the position of the Department of Agriculture and the Forest Service with regard to these attempts?

Answer 6e: Small purchasers in the Northwest, particularly the Puget Sound area, continue to express concern about "third-party substitution." The concern is generated by a high level of purchases by firms without processing facilities. There is a fear that much of the volume purchased by such firms may ultimately be sold to exporting firms. Data available currently does not support the concern about increased substitution. Disposition reports on sales completed in 1979 and 1980 show that only 1 percent of the volume on sales closed each of these years had been sold to firms who could not have purchased the timber directly because of the substitution restriction.

The reporting requirements of the new log export regulation will enable us to develop accurate data on levels and trends in substitution. This regulation is currently in effect and information will be available in early 1982. We do not believe a change in current laws or regulations is warranted from the information available.

The attached research note, PNW-355, discussed substitution and the USDA Forest Service log export restriction.

Question 6f: The ban on log exports has been included annually in the Interior Appropriations bill. What, specifically, would be the effect upon the Forest Service if the words "by the purchaser" were struck from the annual rider banning log exports?

Answer 6f: If the words "by the purchaser" were struck from the annual rider, the substitution restriction of private logs would apply to all buyers of National Forest logs instead of just the purchaser of National Forest timber sales.

Efforts to control indirect substitution or further limit direct substitution would result in disruptions of existing log markets. Nearly every sale of Government timber in the Northwest involves some species and grades of timber which cannot be efficiently processed in the purchaser's facilities. Log sales and trade are routine business practices. They serve to distribute logs to processing facilities where they can be most efficiently utilized. Eliminating mills owned by exporters from competing for some of these logs will result in decreased efficiency in utilization. National Forest timber purchasers would be discouraged from selling their logs to brokers because of the danger they might ultimately be sold to an ineligible buyer. It is true that log markets would adjust to this restriction; however, we beleive the dislocation which would result is not warranted by the volume of logs apparently involved in indirect substitution.

Question 6g: How would the Forest Service go about implementing the change necessitated by the deletion of those three words?

Answer 6g: A ban on indirect substitution would be difficult and costly to administer. Since the Government has no contractual relations with the third-party buyers, it would be difficult, if not impossible, to monitor sales and trade of private timber. Given the relatively small volume involved, we conclude the effort is not warranted.

Question 6h and 6i: How, specifically, would the Forest Service enforce such a policy altered by deletion of the three words ("by the purchaser")?

Would deletion of the three words constitute a major policy change for the Forest Service and what new determinations would be necessary as a result of this change?

Answer 6h and 6i: We would require that all purchasers of National Forest logs report the disposition of all their log sales both private and National Forest. Also, they would be required to furnish information on purchasers of National Forest timber sales for the historical base years 1971 through 1973 and exports during those years. To check the accuracy and validity of the certified information, even on a sample or complaint basis, would require a team of accountants to audit the books of purchasers in question.

This would be a major policy change that would require us to deal with third-party log buyers that the Government has no contractual relationships with. It would be difficult, if not impossible, to administer and would place burdensome reporting requirements on log buyers and traders and require them to open their books to Government auditors when asked.

7. What role does the USDA currently plan in international economic decision making? How do your decisions in trade matters affect the trade policy committee or the Cabinet Council on Commerce and Trade? How do you share responsibilities with other bodies including the NSC on decision such as grain trade with the Soviet Union?

Answer 7: The Department participates in international economic decision making primarily within a structure of Cabinet-level Committees and Councils and their sub-units. In particular, we participate actively in the trade Policy Committee and its subordinate bodies--the Trade Policy Review Group and the Trade Policy Staff Committee. In addition, the Secretary of Agriculture is a member of the Cabinet Council on Commerce and Trade and chairs the Cabinet Council on Food and Agriculture. USDA participates in many trade policy decisions but is particularly vigorous in pursuing agricultural trade issues in these committees and councils, generally providing the staff papers for decisions on these issues.

USDA has worked with other agencies, particularly USTR and State, on decisions concerning the grain agreement with the Soviet Union. The Trade Policy Committee has been informed systematically of developments concerning this agreement. Decisions on the general thrust of our policies toward the USSR have been reached in the NSC. The US-USSR grain trade policy decisions have been consistent with the overall policy framework established in the NSC.

ALASKA • OREGON • WASHINGTON

RESEARCH NOTE

809 NE 6th AVE
Portland, Oregon
97232

PACIFIC NORTHWEST FOREST AND RANGE EXPERIMENT STATION

PNW-355 April 1980

SUBSTITUTION AND THE USDA FOREST SERVICE LOG EXPORT RESTRICTIONS

by

Gary R. Lindell [1]

Abstract

With some exceptions, the substitution of National Forest timber for exported private timber is forbidden by regulations. Certain firms may use a limited amount of National Forest timber as replacement for exported private timber, however, in accordance with their pattern of purchases and exports from 1971 through 1973. About 359 million board feet of National Forest timber could be used annually as replacement for exported private timber by this provision; in 1977 about 102 million board feet was used in this fashion. About 81 percent of the replacement volume was from National Forests in Washington.

KEYWORDS: Import/export (forest products), trade policy (international) National Forest administration.

[1] Principal Economist, Pacific Northwest Forest and Range Experiment Station at the time this report was written. Currently Assistant Director, Planning and Applications, Forest Products Laboratory, Madison, Wisconsin.

U.S. DEPARTMENT OF AGRICULTURE | FOREST SERVICE

The pros and cons of permitting the export of unprocessed softwood logs from the west coast have been debated for a long time,[2] however, the conflict shows no signs of abating.

The controversy has led to the enactment of fairly extensive Federal regulations designed to prohibit the export of Federal timber and to prohibit the substitution of Federal timber for private timber to be exported. In addition, Oregon, California, and Alaska have implemented regulations to restrict the export of timber from State-managed lands. As a result of the combination of Federal and State restrictions, about 38 percent of the combined timber harvest of the three States of Washington, Oregon, and California is directly controlled by export regulations (table 1).

[2]For example, the October 3, 1936, issue of the Oregonian reported initiatives by the Portland Chamber of Commerce to check the flow of Port-Orford-cedar logs to Japan.

The purpose of export restrictions may be to insure domestic processing of logs from public lands or it may be to restrict the volume of exports. The volume of logs exported is on the increase. For example, in 1979, log exports from the west coast and Alaska reached a record 3.4 billion board feet.[3].

As a result of the large volume of exports, questions have been raised about the effectiveness of current regulations. Opponents of exports have expressed concern that the regulations may contain loopholes that permit timber purchasers to take actions against the intent of the regulations.

[3]Ruderman, Florence K. 1979. Production, prices, employment and trade in northwest forest industries. Published quarterly. USDA For. Serv. Pac. Northwest For. and Range Exp. Stn., Portland, Oreg.

Table 1--Proportion of total timber harvest prohibited from export by Federal or State controls in Washington, Oregon, and California, 1977

State	Total timber harvest	Portion of total harvest prohibited from export by Federal controls		Portion of total harvest prohibited from export by State controls		Portion of total harvest prohibited from export by Federal and State controls	
	Million board feet	Million board feet	Percent	Million board feet	Percent	Million board feet	Percent
Washington	6,591	1,175	17.8	--	--	1,175	17.8
Oregon	7,525	3,952	52.5	228	3.0	4,180	55.5
California	4,787	1,757	36.7	28	0.6	1,785	37.3
Total (average)	18,903	6,884	(36.4)	256	(1.4)	7,140	(37.8)

Source: Ruderman, Florence K. 1979. Production, prices, employment, and trade in northwest forest industries. Published quarterly. USDA For. Serv. Pac. Northwest For. and Range Exp. Stn., Portland, Oreg.

One loophole that has come in for particular scrutiny is the grandfather clause of the USDA Forest Service substitution regulations. Although substitution is forbidden, this provision enables certain firms to use a limited amount of National Forest timber as replacement for private timber to be exported. This paper reports the result of a study to determine the nature and extent of this practice.

Substitution Regulations of the USDA Forest Service

The USDA Forest Service was specifically directed to control substitution according to the terms of a rider to the agency's 1974 appropriations bill (P.L. 93-120).[4] In October, 1973, proposed regulations were published and public comments were solicited. Considering these comments, the Forest Service implemented substitution regulations in March, 1974.

Public comments appeared to favor using traditional marketing patterns as a base in control of substitution. Replacement by National Forest timber would be permitted in accordance with the traditional or historical pattern and substitution would be considered as occurring only when the exporter increases purchase of National Forest timber or increases export of private timber.

[4]For additional details see: Lindell, Gary R. 1978. Log export restrictions of the Western States and British Columbia. USDA Forest Service Gen. Tech. Rep. PNW-63, Pac. Northwest and Range Exp. Stn., Portland, Oreg.

Consequently, the regulations recognized a firm's historical base period as 110 percent of the firm's average annual volume of National Forest timber purchases and export of private timber for the calendar years 1971-73. A firm which had been exporting private timber and purchasing National Forest timber during this period could continue to do so subject to the export and purchase limitation or quota. Substitution was defined as, for any subsequent year, an increase in exports relative to the historical base while the firm continues to purchase National Forest timber or an increase in National Forest purchases while the firm continues to export. A firm violating either of these provisos is guilty of a contract violation and faces possible debarment from subsequent sales and cancellation of existing contracts.

Since timber is not readily transportable, the regulations are tied to a particular market area or tributary area. Thus a firm may establish different purchase and export quotas for different tributary areas. A tributary area is established for each mill where National Forest timber is to be processed. The boundary of the area is determined by establishing from the records the area from which each mill received its supply of timber for the base period (1971-1973). Once established, a tributary area is not normally subject to change.

Firms which want to purchase National Forest timber and export private timber are required to submit data to establish their historical purchase and export base. The data must also support the proposed tributary area.

Historical Base Levels

To obtain an estimate of the amount of National Forest timber that can be used as replacement through this provision of the regulations, all of the Western National Forests were canvassed to determine the historical bases which have been established. It was necessary to canvass each National Forest since the monitoring and enforcement of the substitution regulations are done at the Forest level.

As of mid-1979, 49 historical bases had been established in Washington and Oregon and an additional 7 had been established in California. No quotas have been established by firms in the Intermountain or Rocky Mountain areas. In most cases a firm has only one historical base, but some of the larger firms have established bases for several different tributary areas.

During the 1971-73 period, the firms with historical bases exported a total of 1.6 billion board feet of private timber and purchased 4.2 billion board feet of National Forest timber. The sum of the established historical bases is thus 0.6 billion board feet for exports (1.6 ÷ 3 x 110 percent) and 1.5 billion board feet for purchases (4.2 ÷ 3 x 110 percent).

This does not mean that an annual total of 0.6 billion board feet of National Forest timber may be used as replacement for exported private timber. For each firm the permissible volume is determined by the lesser of its export or purchase quotas. For example, a firm which has an export quota of 5 million board feet and a purchase quota of 25 million board feet can use no more than 5 million board feet of National Forest timber as replacement for exported private timber. To obtain a west-wide estimate of replacement, the lesser of these two figures are added for each firm.

Results indicate that 359 million board feet could be used annually as replacement in the West (table 2). Most of the quota has been established by firms operating in the State of Washington, particularly in the vicinity of the Gifford Pinchot National Forest. This does not mean that these volumes are necessarily tied to a particular National Forest; some firms have tributary areas which encompass more than one National Forest. Firms could switch their purchases to another National Forest as long as they fall within the same tributary area. The data in table 2 do indicate, however, the general area of activity of exporters which also were purchasers of National Forest timber.

Although 359 million board feet of National Forest timber could be used as replacement for exported private timber for any given year, the actual volume is less than the allowable. Some firms have stopped exporting. Some exporters have found their quotas too restricted and have stopped purchasing National Forest timber.

Table 2--Volume of National Forest timber that may be used as replacement for private timber to be exported within the substitution regulations

National Forest	Volume (thousand board feet)
Washington:	
Gifford Pinchot	98,120
Olympic	73,735
Mt. Baker-Snoqualmie	29,073
Wenatchee	1,000
Total	201,928
Oregon:	
Mt. Hood	62,586
Siuslaw	3,498
Willamette	5,897
Siskiyou	25,652
Total	97,633
California:	
Tahoe	28,600
Six Rivers	26,989
Shasta Trinity	196
Klamath	13
El Dorado	3,267
Total	59,065
All National Forests	358,626

To obtain an estimate of how much replacement occurs, each National Forest was queried to obtain followup data on purchases and exports by those firms with established historical bases. As before, the lesser of the volume of timber exported or purchased was used as a proxy for the volume of National Forest actually used as replacement.

Data were summarized for all of the firms involved in export and purchase in 1977. For that year, approximately 102 million board feet of National Forest timber was used as replacement for private timber to be exported (table 3). Most of the replacement occurred with timber from National Forests in Washington.

Table 3--Volume of National Forest timber used as replacement for private timber to be exported, 1977

National Forest	Volume (thousand board feet)
Washington	82,919
Oregon	10,686
California	8,340
Total	101,945

Discussion

Results of this study indicate that about 100 million board feet of National Forest timber is annually used as replacement for private timber to be exported. This study measured only direct replacement; no effort was made to determine the amount which is indirectly substituted for private timber to be exported.

The Forest Service is not required to monitor export and purchase activity beyond the original purchaser. This means that a firm which is ineligible to purchase a National Forest sale because it has exceeded its export quota can purchase National Forest timber from another firm and thus indirectly engage in substitution. Indirect substitution cannot be precisely determined. In response to a congressional request, however, the Forest Service concluded that indirect substitution is not widespread and that modification of the regulations is unwarranted.[5]

Our purpose is not to argue for more or fewer export restrictions. Whether or not the permitted replacement, approximately 100 million board feet, constitutes a major loophole depends on one's point of view. Although this represents the annual log requirements for five to six medium-size sawmills, it is a small proportion of total exports, the bulk of which come from private lands or from lands managed by the State of Washington.

There appears to be little basis for determining the net effect of closure of the replacement loophole on log supplies available to domestic processors. For examples, indirect substitution might increase in response to closure of the loophole, and firms affected by the closure who also buy and sell logs in the domestic market might reduce their domestic log sales in order to compensate for the loss of National Forest timber. Or firms might decrease export sales, decrease purchases of National Forest timber, and increase processing of private timber. Even in this situation, however, the net effect on supplies to domestic processors is uncertain: Firms not involved in purchasing National Forest timber might divert log sales from the domestic to the export market in response to any decline in export sales by competing firms.

In summmary, this study has documented the historical base level of 359 million board feet for firms eligible to substitute National Forest timber for private timber to be exported. Of this total, firms are substituting only about 100 million board feet. Over 80 percent of the substitution occurs in the State of Washington. Prohibition of substitution would not necessarily increase log supplies to domestic processors by 100 million board feet.

---

[5]Letter dated September 28, 1979, from R. Max Petersen, Chief, USDA. Forest Service to the Honorable Norman D. Dicks. Copy on file at Pacific Northwest Forest and Range Exp. Stn., Portland, Oreg.

Response of J. Stephen Gabbert to Additional Written Questions
Posed by Representative Richmond

CABLE ADDRESS "RICEMILERS"
TELEX: 89-2751

The Rice Millers' Association

ORGANIZED 1899

CRYSTAL GATEWAY ONE. SUITE 302. 1235 JEFFERSON DAVIS HIGHWAY. ARLINGTON. VA 22202

TEL.: (703) 920-1281

August 25, 1981

The Honorable Fred W. Richmond
1707 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Richmond:

Thank you for your letter of July 17. Please excuse my late reply to your letter as I recently returned from an overseas trip.

Following are responses to the two questions posed in your letter:

1. Is There a Long Term Market for U.S. Rice in Japan Itself?

   Yes, We believe in the rice industry that there will be long term sales opportunities for U.S. rice in Japan after the Japanese have made adjustments in rice production.

2. Are you Satisfied that Section 301 Offers an Adequate Remedy for Subsidized Competition in Third Country Markets?

   No. Section 301 by itself is more of an effective tool which provides the leverage necessary to obtain a remedy for subsidized competition. Section 301 is not the remedy itself. The most effective remedy is forceful and aggressive negotiations by the Executive Branch utilizing the full inventory of tools and weapons such as Section 301. It is this type of representational competence that will remedy unfair subsidized competition. Unfortunately, Congress cannot legislate competence.

Sincerely,

J. Stephen Gabbert
Executive Vice President

JSG/lt

APPENDIX

Statement of the American Meat Institute

The American Meat Institute, national trade association for the meat packing and processing industry with over 300 member companies doing business in all 50 states, is pleased to offer comments concerning a problem our industry faces with respect to meat exports.

As the Committee is well aware, agricultural exports are the brightest spot in America's trade picture. Topping $41 billion in 1980, agricultural exports generated a positive trade balance of $24 billion—an invaluable offset to the billions we are spending for foreign oil. A continuation and expansion of agricultural exports is one of the best ways to help our farmers and the nation in general through a more favorable trade balance and, therefore, a stronger economic position in the world.

Meat exports are a growing segment of our agricultural exports—with great potential for expansion. In 1980, nearly $3 billion in meat and meat products were exported. The largest items in that total are meat byproducts—cattle hides, inedible tallow and greases, and fur skins. Exports of actual meat and variety meat total approximately $1 billion annually. While we have experienced relatively few problems in exporting the meat byproducts mentioned above, such is not the case with meat and variety meats themselves. The bulk of our meat exports goes to Japan and Europe, and that is where the problem lies.

During the recent multinational trade negotiations, Japan made minor concessions in the meat area. No one disputes the fact that Japanese consumers could enjoy higher-quality U.S. beef at substantially less cost than the Japanese beef they are now consuming. Yet the Japanese government continues to tightly regulate the importation of beef via their Lievestock Industry Promotion Corporation and to employ a variety of non-tariff barriers such as lists of approved plants, rigid certification requirements, yield grading and complex pricing mechanisms to keep American meat imports out.

At the same time, Japanese automobiles and other products continue to flood into the United States at unprecedented rates. As the new Administration grapples with the Japanese import problem and the economic dislocations it is causing, we urge that some attention be given to Japanese attempts to keep American meat products out of Japan.

With respect to Europe, the U.S. exported more than $150 million of variety meats to Europe Community member countries in 1980. The recently completed trade negotiations will permit us to export annually up to 10,000 metric tons of high quality beef, valued at $100 million, to the E.C. The market there for U.S. beef and variety meats has the potential of becoming much greater.

Unfortunately, the E.C. is attempting to enforce a third country meat directive which could virtually eliminate U.S. exports of meat and variety meat products to Europe.

The third country meat directive establishes health and sanitary requirements for packing plants wishing to export to the E.C. in significant variance to U.S. processes and procedures. Recently a delegation of E.C. veterinarians visited U.S. plants and developed a lengthy list of variances that exist between U.S. plants and the third country meat directive.

The U.S. meat industry believes that many of these variances are unreasonable and represent arbitrary and unnecessary non-tariff trade barriers.

This directive, adopted by the E.C. Council in 1972, has not been enforced community-wide. Some E.C. countries, such as the United Kingdom and West Germany, have stricter health and sanitary requirements than do other E.C. members. The E.C. plans now to take charge and implement this third country meat directive community-wide.

The E.C. directive fails to recognize our own very effective U.S. meat inspection system. Many of our inspection procedures and practices, although different from E.C. requirements, accomplish the same end result.

In February, representatives of the E.C. were in Washington to meet with USDA officials concerning this problem. While USDA officials expressed optimism that a solution could be reached, that has not yet happened. We hope the Committee will make clear to the Department how important this matter is and that a successful resolution is imperative.

We are not requesting legislative action at this time but wanted to bring this important matter to the Committee's attention. We hope to work with you and the Department to remove any inappropriate barriers to the exportation of U.S. meat and meat products. An expansion of this segment of agricultural exports will not only be good for the meat industry but will be good for the nation.

Statement of Robert Gross, President, California Pistachio Association

Mr. Chairman, my name is Robert Gross and I serve as president of the California Pistachio Association (CPA). The Association is comprised of approximately 215 grower members and 40 associate members. In the ten years since commercial development of pistachios began, these growers have been responsible for thousands of new jobs and over $300 million in investment in the growth and harvesting of pistachios, virtually all of which are grown in California.

Although commercial development of pistachios began about ten years ago, due to the nature of the pistachio tree, American growers have been harvesting them on a large scale only since 1977. In these four short years, our annual harvest has grown from zero to 27 million pounds in 1980, which is enough to fully satisfy current domestic demand.

Admittedly this prodigious growth is impressive, but more impressive still is the fact that the American pistachio is generally considered to be superior in flavor and quality to those produced anywhere else. Mr. Chairman, it should be obvious by now that American pistachio growers have put the technology and know-how available to them to good use.

A good measure of their success in using this technology is the fact that, with just four years of commercial crops, the U.S. harvest in 1980 was second in size only to that of Iran, which has 2,000 years of experience in growing pistachios. Because our American growers have satisfied the domestic demand for pistachios, our natural tendency has been to investigate the possibility of exporting our product. Due to the fact that more pistachio acreage is coming into production all the time, we estimate that by 1985, we will have to export three pounds of nuts for every pound that is consumed in the United States. However, many of the major pistachio consuming countries are, like Iran, in the Middle East, and are very nearly self-sufficient in pistachios as well, which effectively eliminates them from our list of potential export markets.

What remains after these countries are struck from the list are nations which consume pistachios on a large scale, but which do not grow them domestically. This includes Japan and the countries of the Common Market. As I mentioned earlier, the U.S. must compete with Iranian exports for market share in these countries, and the fact that the Iranians are expecting an exceptionally good crop this year, on the order of 200 million pounds, means that we have much hard work ahead of us if we are to penetrate these markets and establish ourselves there.

Unfortunately, this task is made even more difficult by the fact that these countries have tariffs that favor Iranian pistachios while penalizing the American product. For example, the Common Market applies a 1 percent duty to Iranian nuts and a 2 percent duty on imports from the U.S. Japanese tariffs, changed in early 1981, go even further by charging 2 percent on pistachios from Iran, and 20 percent on those from the United States.

During the Iranian revolution, the Common Market tariff diminished in importance due to a shortage of the Iranian product and a high demand for U.S. pistachios. With the resumption of Iranian imports, and the large crop expected there, these tariffs, and especially the drastic tariff difference of Japan, pose a very serious threat to the export objectives of the CPA.

They are disturbing to us because we can see no rational reason for the glaring discrepancy in tariff rates between our product and that of Iran, especially since Japan does not grow the pistachio domestically. The Japanese rationale for these restrictive rates seems to be basically that the lower tariff is granted to Iran under GSP preferential treatment for underdeveloped nations.

In reply, we think that after 2,000 years, the Iranian pistachio industry is hardly underdeveloped and therefore not in need of GSP preferential tariffs.

In conclusion, Mr. Chairman, we want to emphasize that the CPA is simply seeking fair and equal treatment in the export of our product to Japan. The great difference in import duties is, in our opinion, neither fair nor equal, and we seek your assistance in obtaining the reciprocity that our product deserves.

The California Pistachio Association has appreciated this opportunity to appear before your subcommittee, Mr. Chairman, and we thank you for the attention our testimony has received.

STATEMENT OF ROBERT P. HARTZELL, EXECUTIVE VICE PRESIDENT, CALIFORNIA ASSOCIATION OF WINEGRAPE GROWERS

Good morning Mr. Chairman, my name is Robert P. Hartzell. I am Executive Vice President of the California Association of Winegrape Growers (CAWG). Our Association currently represents the growers of approximately 55 percent of the available tonnage of grapes crushed for wine in California.

Within the last decade, the United States wine industry has developed to the point where American wines are equal to, and often surpass, their foreign counterparts in taste and quality. Despite the dramatic increase in quality, U.S. wines still have a very small share of the import market in most foreign countries.

The reason for this small market share is not the quality of American wines, but rather the numerous obstacles many countries raise to the importation of U.S. wines. Japan falls into the category of countries that blatantly discriminate against the importation of U.S. wines.

The Japanese tariff on imported table wine in containers not exceeding 150 liters is 280 yen per liter ($5.22 per gallon). The U.S. tax on imported Japanese sake is only $.375 per gallon.

In addition, there is a liquor tax of 50 percent of the sum of the C.I.F. value plus duty when the sum is greater than $15.81 per gallon. If it is less than $15.81, the tax is 44.90 yen per liter ($.82 per gallon). As a result of the tariff and other taxes, the price to the Japanese importer of a $10 per gallon U.S. table wine is between $19.37 and $22.83.

It is only fair to ask that the Japanese tariffs and taxes be reduced to the U.S. level as a simple matter of reciprocity. This would cause a significant drop in the cost of U.S. wines to the Japanese consumer and help expand the U.S. share of the market.

In addition, Japan requires an import license for importers of foreign wines. Currently, only about 20 import licenses are issued for all of Japan. This sparsity of import licenses represents a barrier which severely restricts access to Japanese markets. The small number of import licenses issued should be increased at least by three times.

I feel it is imperative that the U.S. and Japan reach an equitable agreement on trade terms for their respective producers' wines. All the U.S. producers are asking for is reciprocity from a country to which the U.S. already extends generous trade terms. The U.S. wine industry is a glowing example of an old world that has flourished in the new, thanks to American ingenuity and perseverance. It deserves all the support we can give.

Mr. Chairman, we thank you for allowing us to testify before your Subcommittee.

UNITED FOOD & COMMERCIAL WORKERS INTERNATIONAL UNION, AFL–CIO & CLC,
Washington, D.C., August 5, 1981.

HON. FRED RICHMOND,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN RICHMOND: I have your letter of July 20. I appreciate your kind remarks about my testimony on United States-Japanese trade.

You ask in your letter whether we can encourage the Japanese to resist Australian pressure and whether our existing trade laws cover the existing situation, especially providing a 301 case. The answer to both questions is: theoretically yes.

However, the practical answers to the questions point right back to the basic problem: the unwillingness of United States trade negotiators and officials to play hardball with the Japanese, as the Australians do. If the United States did follow a tough policy in trade dealings, the 301 cases and other actions would probably be unnecessary.

Also, while the resources of your letter are theoretically available, they involve a tortuous, legalistic procedure. At the end of the process, would trade officials who are unwilling to get tough with Japan now be willing to get tough then—and with Australia?

Finally, the trade in beef with Japan could probably be greatly expanded, so that both Australia and we continue to sell large amounts. There is a great deal of possible business in Japan—enough to be very profitable for the United States industry and the Australian industry. The problem is the Japanese quotas and the various Japanese practices and add-ons described in the hearings.

The solution is not very difficult to fathom. It requires United States trade officials to talk and negotiate tough to the Japanese. It requires some threats and willingness to carry through with the threats. It requires trade negotiators to declare that 301 actions are available and would be used. It requires our taking a page out of the Australian book.

The power relationships between Japan and the United States are entirely in our favor. Our trade negotiators simply have to recognize that fact and be willing to take advantage of it

Sincerely yours,

ARNOLD MAYER,
International Vice President,
Director of Government Affairs.

STATE OF FLORIDA,
DEPARTMENT OF CITRUS,
Lakeland, Fla., July 6, 1981.

Hon. JOHN R. BLOCK,
Secretary, U.S. Department of Agriculture,
Washington, D.C.

DEAR SECRETARY BLOCK: We read with interest a news release on your recent trip to Paris in May of this year. Since we have not had the opportunity to meet with you personally since your taking office, we thought this would be an opportune time to brief you on some of the problems the Florida citrus industry is experiencing in Europe. I will briefly outline our major concerns and problems in Europe as well as in Japan. For your information, I am enclosing a copy of the details on each of these concerns, as well as our justification as to why they should be eliminated.

EUROPEAN COMMUNITY

Preferential duty rates—processed citrus products

EC import duty of both concentrated and single-strength orange juice is 19 percent ad valorem. EC import duty on concentrated and single-strength grapefruit juice is 15 percent ad valorem. Each of these duties is bound to the United States. The EC has established a preferential rate for imports of orange and grapefruit juices from four Mediterranean supplying countries. In our opinion, these preferences are in direct violation of GATT.

Preferential duty rates—fresh oranges

The EC duty on fresh oranges is a variable level ranging from 20 percent during the peak of our season to as low as 4 percent during the summer. This tariff is bound to the United States. During Florida's period of production the effective tariff is 20 percent. During this same period of time, the EC grants preferences to almost all Mediterranean countries. These preferences amount to as much as a 100 percent reduction in the tariff in some cases.

Value-added taxes

Although this is something that cannot be specifically discussed during trade negotiations, etc., we thought we would point out the fact that many countries in the EC impose a special value-added tax on citrus products, in particular citrus juices, which prices them as a luxury item rather than as a normal food item.

JAPAN

Fresh orange quotas

The Japanese have a quota system on fresh oranges which, in effect, has acted as an embargo on our oranges being exported to that country. This quota was enlarged during the recent Multilateral Trade Negotiations. However, the quotas still remain quite small, particularly during Florida's shipping season, and the manner in which the quotas are issued is still political and does little to promote free trade, as it was intended.

Frozen citrus concentrate

Japan has a quota on both frozen concentrated orange juice as well as frozen concentrated grapefruit juice. Although these quotas were enlarged as a result of the recent Multilateral Trade Negotiations they are still rather small. It is also interesting to note that Japan, who does not produce any fresh grapefruit, has liberalized the quotas on fresh grapefruit but still maintains their quota on grapefruit concentrate.

U.S. tariff restrictions on Japan

Although it is not in our back-up document, we thought we should mention the fact that the United States does impose restrictions on fresh Mikan oranges coming from Japan to the United States, restricting them to four western states. However, we want to point out the reason for this restriction is citrus canker, which is prevalent in Japanese groves. Canker is a disease for which there is no cure other than destruction of all infested groves. Citrus canker, when introduced in a substropical climate such as Florida's, runs rampant in a couple of years and could again strike a severe blow to the Florida industry as it did one time in the past. Thus, the industry has a continuing concern for maintaining a strict restriction on fruit coming from any citrus-producing area where Canker is prevalent.

We want to thank you for taking time to read this letter and would certainly hope that you will take time to read the attached documents which give further information on each of these problems, as well as possible solutions. In the event that you should so desire, we would be pleased to provide you additional information or meet with you to discuss these concerns.

Sincerely,

W. BERNARD LESTER,
Executive Director.

Enclosure.

A SPECIAL REPORT AND REVIEW OF CERTAIN TRADE ISSUES TO HON. JOHN R. BLOCK, U.S. SECRETARY OF AGRICULTURE, FROM THE FLORIDA CITRUS INDUSTRY, JULY 6, 1981

EUROPEAN COMMUNITY

Preferential duty rates

The current EC import duty on both concentrated and single-strength orange juice is 19 percent ad valorem. For concentrated and single-strength grapefruit juice, the tariff is 15 percent ad valorem. Each of these duties is bound to the United States. The European Community has established preferential duties for imports of orange and grapefruit juice from four Mediterranean supplying countries. In our opinion, these preferences are in direct violation of GATT. These reductions which amount to 70 percent in the 19 percent and 15 percent import duties respectively, are granted to Israel, Tunisia, Morocco, and Algeria. With this 70 percent reduction, these countries are now assessed an import duty of approximately 5.7 percent ad valorem on orange juice and 4.5 percent ad valorem on grapefruit juice, compared to the 19 percent and 15 percent ad valorem respectively, for all other third country suppliers, including the United States. All of this information is documented in the attached briefs, dated October 27, 1976, and a supplemental brief filed on February 22, 1977. Copies are attached for your information.

In addition, although the European Community has a bound duty to the United States on fresh oranges, they also grant a similar preference on fresh oranges to almost all of the Mediterranean-based countries. Again, in our opinion, these preferences are in direct violation of GATT. At the time we presented our brief to the Section 301 Committee on October 27, 1976, the California-Arizona citrus industry also presented a brief which supported our position on concentrate. We at the same time, supported their position on fresh oranges in these matters.

JAPAN

Fresh grapefruit

Currently, Japan is a major market for Florida fresh grapefruit and has been since 1971 when the quota was lifted. Since that time, this market has developed into our number one export market for fresh grapefruit and Japan now accounts anywhere from 17–20 percent of our total fresh grapefruit movement. During this period of time, we have had to overcome a number of problems, some of them real which were technical in nature, and some of them manufactured problems, by the Japanese, in an effort to try to keep our products out. At the current time, we are not experiencing any significant problems in our exports of fresh grapefruit to Japan. Although the Japanese do not produce any grapefruit, they do have a 40 percent ad valorem tariff on fresh grapefruit. This tariff, as a result of the Multilateral Trade Negotiations, will be reduced to 25 percent during our shipping season. However, it will be 1987 before the real effect of this reduction will be realized since this tariff reduction is expected to be staged over an eight-year period.

Fresh oranges

The Japanese have a quota system on fresh oranges which, in effect, has acted as an embargo on our oranges being exported to that country. Although this quota was enlarged as a result of the Strauss/Ushiba agreements in January 1977 and have been further enlarged as a result of the Multilateral Trade Negotiations, we still have some problems with the manner in which licenses are granted. Currently, licenses are granted by the Japanese government to Japanese importers. Up until this time, the import licenses have been granted to a very small number of importers, and these importers have chosen to manipulate the use of these quotas so as to keep products out. They do this by selling the quotas to other importers at inflated prices and in many instances, obtain a quota but do not use it. In addition to this, one-half of all orange quotas are issued during the June through August period at a time when Florida does not have any fresh oranges. The Japanese agreed in 1977 at the time of the Strauss/Ushiba agreements to change this manner of issuing licenses. This offer was in writing and reads as follows:

"The increased portions of the import quota over the JFY 1978 levels will be excluded from the present import quota sustem and will be administered under a new system that will provide import opportunities on a fair and equitable basis for participation of new traders in a manner that will assure full utilization of available licenses."

Recent information received has caused us to believe that this promise may not be carried out. In view of these facts, our position on the fresh orange quotas in Japan is as follows:

(a.) Additional quotas should be limited to current citrus importers on record for the 1976/77 through 1978/79 seasons. This would grant orange quotas to current grapefruit, orange and lemon importers.

(b.) Action should be taken to revamp the current license system which would prohibit the selling of licenses at inflated prices and also provide some penalty for non use of quotas unless valid reasons are available.

(c.) Discussions re liberalization should be held as soon as feasible in order to begin liberalizing all license systems.

(d.) Additional effort should be made to increase the current quota schedule for fresh oranges which when fully implemented represents less than 2 percent of the fresh orange consumption in Japan. This amounts to less than four oranges per person.

Frozen citrus concentrate

Frozen concentrate, like fresh oranges, is another product which the Japanese have had restricted to a very small quota system for the last number of years. Although the quotas were enlarged slightly as a result of the Multilateral Trade Negotiations, they are still rather small. In fact, the total of the new increased quotas which will not be totally in effect until 1984 amounts to approximately four days of production. We would make the following statement conc_rning "concentrate quotas":

(a.) Current quotas are held by Japanese grower citrus co-ops who strongly oppose any increase in quotas. It is logical that if these firms are awarded the increased quotas, little or no effort will be made to promote and sell a blend ot U.S. orange juice and Mikan juice and grapefruit juice.

Increases in the quotas for processed products should be free of the current license system and should be allocated exclusively to business entities which are not connected with the Japanese citrus industry.

(b) Japanese citrus industry representatives have stated that the market for frozen concentrated orange and grapefruit juice products in Japan is very limited because of differences in the cultural and eating habits of the Japanese and American consumer. It is quite probable that if the Japanese consumer was offered the same type citrus processed products as are available in the U.S., they would indicate a desire for those products.

(c) Frozen concentrate quotas should not be restricted to blending purposes. We feel that the Japanese consumer is ready and would accept consumer sizes and institutional sizes of frozen concentrated citrus products from the United States and this would not in any way interfere with the Japanese citrus industry as it is currently operated.

Although the quota on grapefruit juice concentrate has been increased, we again question the validity of imposing a quota against a product which is not produced in that country. Fresh grapefruit were liberalized in 1971 and it is our opinion that grapefruit juice concentrate should have also been liberalized.

(c) An expanded orange juice market in Japan would help alleviate the current surplus of Mikan fruit. Reports previously provided to the Japanese indicate the financial advantage to their growers of developing a blended orange juice market. Such development of a juice market proved a definite financial benefit to the Florida citrus grower as opposed to providing direct competition with his fresh fruit.

(d) U.S. interests will be pleased to provide Japanese firms whatever technical assistance may be necessary to initiate the blending procedures for OJ and reconstituting procedures for grapefruit juice.

(e) Given the extremely large trade deficit between the U.S.A. and Japan, the awarding of additional quotas should be limited to U.S. product.

Enclosures

A brief before the Section 301 Committee of the Special Representative for Trade Negotiations,concerning EC preferential duties for imports of orange and grapefruit juices from certain Mediterranean countries, filed October 27, 1976.

A brief before the Section 301 Committee (supplemental information) of the Special Representative for Trade Negotiations, concerning EC preferential duties for imports of orange and grapefruit juices from certain Mediterranean countries, dated February 22, 1977.

A background paper: the impact of developing Florida citrus juice markets in Japan, dated May 2, 1978.

Brief of the State of Florida—Department of Citrus, Florida Citrus Commission, Before the Section 301 Committee, Office of the Special Representative for Trade Negotiations, Concerning EC Preferential Duties for Imports of Orange and Grapefruit Juices From Certain Mediterranean Countries, Pursuant to Section 301 of the Trade Act of 1974

SUBJECT OF THE BRIEF

This brief is concerned with preferential import duties established by the European Community for imports of orange and grapefruit juices from certain Mediterranean countries.

The State of Florida—Department of Citrus, Florida Citrus Commission

The Department of Citrus is an agency of the State of Florida charged with the responsibility of regulating the Florida citrus industry and with assisting all segments of the industry in the marketing of its fruits and products.

It supervises the development of advertising campaigns that promote Florida citrus in domestic and export markets, and conducts merchandising programs to increase the demand for Florida Citrus.

It administers the Florida Citrus Code, which provides regulated powers over the packing, processing, labeling and handling of citrus fruits and products. Regulations are designed to assure the quality of citrus fruits and products.

It also conducts programs in scientific, economic and market research and handles industry transportation problems.

The Florida Citrus Commission, created in 1935, serves in the capacity of a Board of Directors for the Department of Citrus. The operations of the Department are financed by an excise tax on each box of citrus fruit moved through commercial channels.

EC common external tariff

The current EC import duty on both concentrated and single strength orange juices of the type commonly traded with the Community (BTN 20.07 BIIa(1)) is 19 percent ad valorem. And for both concentrated and single strength grapefruit juices (BTN 20.07 BIIa(2)) it is 15 percent ad valorem. Each of these duties is bound to the United States.

EC PREFERENTIAL IMPORT DUTIES

The European Community has established preferential duties for imports of orange and grapefruit juices from four Mediterranean supplying countries.

A 70 percent reduction in the EC common external tariff (BTN 20.07) for imports of orange and grapefruit juices from Israel is set forth in Regulation (EEC) No. 1274/75 of the Council of May 20, 1975, concluding the Agreement between the European Economic Community and the State of Israel. This duty preference became effective July 1, 1975.

Similarly the same preferential duty treatment was accorded in the new EC Cooperation Agreements with Tunisia (signed April 25, 1976), Morocco (signed April 26, 1976) and Algeria (signed April 27, 1976). These duty preferences became effective July 1, 1976.

These preferences mean that imports into the EC from Israel, Tunisia, Morocco, and Algeria now are assessed import duties of only 5.7 percent ad valorem for orange juices and 4.5 percent ad valorem for grapefruit juices compared to 19 and 15 percent ad valorem respectively for these juices from other third country suppliers including the United States.

EC QUANTITATIVE RESTRICTIONS

The only remaining quantitative restriction on imports of citrus juices into an individual country of the European Community exists in Italy. Italy had maintained discretionary licensing on imports of all citrus juices, but now (according to EC Regulation 1927/75) may maintain this system on all citrus juices except grapefruit juice through calendar 1977.

Additional potential quantitative restrictions affecting imports of orange and grapefruit juices into the European Community are:

a. No. 865/68, which, among other things, lists the processed fruits and vegetables covered by a Common Market import system. Processed orange and grapefruit juices are included in the list.

b. No. 1927/75, of July 22, 1975, which among other things, establishes a system of import certificates required for imports into the EC (which does not now apply to citrus juices) and provides for regulation of third country trade by member states or the Commission if markets are seriously disturbed.

c. No. 1928/75, of July 22, 1975, which, if the Community market for certain processed fruits and vegetables, including orange and grapefruit juices, "experiences or is threatened with serious disturbances," authorizes (1) the total or partial suspension of imports; and (2) the establishment of minimum import prices.

These new restrictions are the subject of an action under Article XXIII 2 of the GATT currently being taken by the United States against the European Community.

FLORIDA CITRUS JUICE PRODUCTION AND TRADE

Florida is by far the largest producer of oranges and tangerines, and of grapefruit, in the United States. The June, 1976, U.S.D.A. Crop Report shows that Florida supplied 80 percent of the 1975–76 U.S. total orange and tangerine crop and 74 percent of the grapefruit crop.

The bulk of the Florida production of these fruits is processed. During the 1974–75 season, 90 percent of the Florida orange and tangerine crop was processed, and 58 percent of the Florida grapefruit crop was processed.

During this season, the shares of Florida oranges and tangerines used for the various processed products were: Retail frozen concentrate—63 percent; Institutional frozen concentrate—7 percent; Canned single strength juice—4 percent; chilled juice—14 percent; and other (mostly bulk concentrate for reprocessing into chilled juice, blends, or beverage bases and drinks)—12 percent.

At the same time, the shares of Florida grapefruit used for the various processed products were: Canned single strength juice—43 percent; Chilled juice—13 percent; Canned and chilled sections and salad—12 percent; Retail and institutional frozen concentrate—12 percent; and other (mostly bulk concentrate for reprocessing chilled juice, blends, or beverage bases and drinks)—20 percent.

As would be expected, processed Florida orange and tangerine, and grapefruit products dominate the U.S. supply picture, especially for frozen concentrated and chilled juices. It is estimated[1] that Florida contributes 91 percent of all U.S.

[1] Economic Research Department, Department of Citrus.

processed orange products—98 percent of the retail frozen concentrated orange juice, 99 percent of the chilled orange juice, and 80 percent of the canned single strength orange juice. Also, that Florida contributes 82 percent of all processed grapefuit products—99 percent of both the retail frozen concentrated grapefruit juice and of the chilled grapefruit juice, and 70 percent of the canned single strength grapefruit juice.

The bulk of the orange and grapefruit juice packs in Florida, and in the United States, is sold in the domestic market. It is estimated that in 1975 exports of Florida orange and grapefruit juices were approximately 65 and 9.5 million gallons, single strength basis, respectively. This was the equivalent of about 7.5 percent of the 1974–75 Florida orange juice pack and about 9.5 percent of the Florida grapefruit juice pack. That year the European Community received an estimated 13.5 million gallons of Florida orange juice and 2.3 million gallons of Florida grapefruit juice (s/s basis)—about 2 percent of the packs.

These shipments of citrus juices to the EC, even though relatively small as a proportion of the total crop, have had a positive impact of returns to the Florida citrus industry. As the size of Florida's citrus crops continue to expand, it is desirable that sales to the EC also expand. However, unless there is action taken to eliminate these discriminatory tariffs, they will continue as an unreasonable hinderance to the expansion of Florida citrus juice sales to the EC.

The Florida citrus industry, in cooperation with the U.S. Department of Agriculture, conducts a foreign market development program designed to encourage increased use of citrus juices in foreign markets—largely in Western Europe. This has resulted in a four-fold increase in sales of Florida citrus juices—largely concentrated orange juice—over the past ten years.

Data showing the value of U.S. exports of the various types of orange and grapefruit juice to the European Community and world markets during calendar 1975 are shown in the following table:

EXPORTS OF U.S. ORANGE AND GRAPEFRUIT JUICES TO THE EC AND WORLD

Item	Calendar 1975 To EC	Calendar 1975 To world
Orange juice:		
Single strength concentrated	2,905	12,250
Frozen	7,537	50,190
Hot pack	2,032	4,963
Grapefruit juice:		
Single strength concentrated	1,122	5,942
Frozen	856	4,269
Hot pack	214	984
Total	14,718	74,598

Source: U.S. Department of Agriculture, Foreign Agricultural Service.

EUROPEAN COMMUNITY ORANCE AND GRAPEFRUIT JUICE PRODUCTION AND TRADE

The European Community is the world's largest import market for citrus juices, citrus juice trade data are difficult to combine, because different countries report the figures on different bases. In an effort to measure the relative importance of the EC citrus juice market, the 1973 calendar year exports of 9 leading exporting nations (Brazil, the U.S., Spain, Israel, Italy, Greece, Morocco, South Africa and Mexico—combined estimated to provide over 95 percent of the world total exports) were summarized by countries of destination. (This was the latest year for which complete data were available.) The results of this summary—the exports were converted to an equivalent single strength basis—showed that the European Community received 58 percent of the total orange juice and 60 percent of the total grapefruit juice exports of the countries shown. Brazil was the most important orange juice exporter, with 56 percent of the total volume shown. The U.S. provided one-fifth of the total orange juice and two-fifths of the total grapefruit juice exports. These data are shown in Tables I and II.

The only significant production of these juices in the European Community is in Italy, which in 1973 processed a reported 18 million gallons of single strength orange juice. This, when added to the exports to the EC computed as above suggests that Italy provided about 9 percent of the orange juice consumed in the EC that year.

THE EC PREFERENTIAL IMPORT DUTIES IN RELATION TO:

A. GATT tariff binding

The EC common external tariffs on orange and grapefruit juices are bound to the United States. The preferential duties provided for imports of these juices from the four Mediterranean countries impair the value of the tariff binding and are an "unreasonable" trade barrier burdening U.S. exports.

B. The provisions of GATT

The tariff preferences accorded the four citrus exporting Mediterranean countries by the European Community clearly are not compatible with Article I of the GATT.

Article I provides for general most-favored-nation treatment in customs duties and charges, with the exception of certain preferences existing in the past and which are not applicable to the actions by the EC.

Thus the preferential duty treatment accorded by the EC to certain Mediterranean countries not only nullifies the tariff bindings to the U.S. but also is contrary to the provisions of Article I. Under this Article, the U.S. and other third countries should be entitled to market access in the EC at the preferential rates accorded certain Mediterranean countries.

C. Trade

It is estimated that Florida exported roughly 16 million gallons (single strength basis) of orange and grapefruit juice to the European Community in 1975.

Several Florida exporters already are experiencing a decline in orders as a result of the tariff preferences accorded by the EC to certain Mediterranean suppliers. A recent canvass of several Florida citrus juice exporters showed that these had experienced already, or were notified that next season they would experience, reductions in orders for that market aggregating over two million gallons (single strength basis) because of reduced prices for certain Mediterranean citrus juices as a result of the duty preferences.

The tariff preferences already are having this direct effect on Florida exports of citrus juices. In addition, we can expect further effects to be felt in the markets in the Community and elsewhere in the world.

We can expect production of orange and grapefruit juices to be increased in the Mediterranean countries benefitting from the EC tariff preferences. And their exports to the EC markets correspondingly would increase. Production of oranges and grapefruit in these Mediterranean countries has been increasing, especially in Israel and Morocco, and the preferences should stimulate further increases.

The increased supplies from Mediterranean sources doubtless will result in market displacement for other important world suppliers—such as Brazil—who in turn will be forced to seek new markets for their orange and grapefruit juices denied most-favored-nation treatment in the European Community markets. Thus Florida processors can expect increased competition in world markets outside the European Community, such as Scandinavia, Japan, Canada and other markets.

An important, and probable, indirect effect of the EC tariff preferences would be increased imports of concentrated orange juice, particularly from Brazil, into the U.S. market. The U.S. market, and those in Scandinavia and Canada, are the only major world citrus markets that do not limit imports by non-tariff measures such as quotas, minimum import prices or other measures. We anticipate that increased Mediterranean supplies will displace in part supplies from third countries in the EC markets. And supplies in many third countries—especially Brazil and Argentina—are increasing. So pressure to find new markets outside the EC will become greater. Exporting countries not benefitting from the EC preferential duties will eventually be forced to seek new markets, and the only avenues open are in Scandinavia and North America.

SUMMARY

The EC preferential duties for imports of orange and grapefruit juices from certain Mediterranean countries are: (1) unjustifiable, in that they are incompatible with Article I of the GATT; and (2) unreasonable, in that they impair the value of the GATT tariff concession on these juices, bound to the U.S.

These preferential duties will burden and restrict exports of U.S. oranges and grapefruit juices.

Sales of Florida orange and grapefruit juices to the European Community already have been adversely affected by them. In addition, they will result in increased competition to Florida exporters in world markets outside the European

Community. Also, it is likely that they will ultimately bring about increased imports of concentrated orange juice into the United States.

The EC preferential duties clearly meet the conditions set forth in Section 301 (a) 1 and 2 of the Trade Act of 1974.

The Florida Citrus Commission requests that all appropriate and feasible steps be taken to obtain the elimination of these tariff preferences of the EC.

TABLE I.—CALENDAR 1973 EXPORTS OF ORANGE JUICE TO MAJOR CONSUMERS

[In million equivalent single strength gallons]

Exporter and form	Importer				
	EC 9	Canada	United States	Other	Total
Brazil: FCOJ	108.6	11.3	14.1	21.2	155.2
United States:					
FCOJ	12.5	23.0		14.4	49.9
HPOJ	3.0	.7		3.5	7.2
SSOJ [1]	3.0	5.8		1.9	10.7
Spain:					
FCOJ	7.6	(2)		.7	8.3
SSOJ	2.4	(2)		.2	2.6
Israel:					
FCOJ	13.1	.1	(2)	4.3	17.5
SSOJ	11.2	(2)	(2)	2.5	13.7
Italy: SSOJ	1.0			.8	1.2
Greece:					
FCOJ	1.1			8.1	9.2
SSOJ	1.6			3.1	4.7
Morocco:					
FCOJ	9.6				9.6
SSOJ	1.0			.8	1.8
South Africa:					
FCOJ	6.5			.4	6.9
SSOJ	.7			.4	1.1
Mexico: FCOJ	(2)	1.8	6.9	4.6	13.3
Total (all)	182.9	42.7	21.0	66.3	312.9

[1] Includes orange share of blended juice.
[2] Less than 50,000 gallons.

Source of data: Based upon data received from USDA, Foreign Agricultural Service.

TABLE II.—CALENDAR 1973 EXPORTS OF GRAPEFRUIT JUICE TO MAJOR CONSUMERS

[In million equivalent single strength gallons]

Exporter and form	Importer				
	EC 9	Canada	United States	Other	Total
United States:					
ECGJ	2.6	2.7		0.7	6.0
KPGJ	.4	.6		1.2	2.2
SSGJ [1]	1.0	3.7		.6	5.3
Israel:					
FCGJ	2.1	.1	(2)	.4	2.5
SSGJ	7.4	(2)		.5	7.9
Greece:					
FCGJ	.2			.3	.6
SSGJ	3.1			1.2	4.3
Morocco: SSGJ	1.2				1.2
South Africa SSGJ	.5	(2)		.3	.8
Total (all)	18.5	7.1		5.2	30.8

[1] Includes grapefruit share of blended juice.
[2] Less than 50,000 gallons.

Source of data: Based upon data received from USA, Foreign Argicultural Service.

SUPPLEMENTAL INFORMATION FROM THE STATE OF FLORIDA—DEPARTMENT OF CITRUS, FLORIDA CITRUS COMMISSION

ECONOMIC IMPACT OF EUROPEAN ECONOMIC COMMUNITY CITRUS IMPORTS FROM FLORIDA ON THE FLORIDA CITRUS INDUSTRY

While Florida exports several types of fresh and processed orange products to the EC, the primary effects of changes in EC demand for Florida products would be manifested in the domestic frozen concentrated orange juice (FCOJ) market. Exports of processed orange juice from Florida to the EC countries averaged about 12 million single-strength gallons per year between 1972 to 1976 (Table I). The Economic Research Department of the Florida Department of Citrus (ERD–FDOC) estimates that average annual Florida orange juice exports to EC countries will be 15 million single-strength gallons for 1977 through 1981. These projections are made under the assumption that EC import tariff rates would remain at levels existing prior to July 1975 and July 1976.

Had the EC markets been closed off to Florida as an outlet for processed orange juice during 1972 through 1976, more product would have had to be sold on the domestic market at lower prices than actually existed during that period. Most of this product would have been sold as FCOJ. Since the demand for FCOJ is in elastic at the FOB level, Florida processors and ultimately Florida growers would have realized nearly 27 million dollars less revenues over the five year period (1972 through 1976) than if no exports to European Common Marker countries had occurred.

Projections of supply and demand for 1977 through 1982 suggest that the equilibrium domestic F.O.B. price for FCOJ will average around $3.56 per concentrate gallon (45° brix). This projection assumes exports to EC countries will continue to expand with an average of 15 million single-strength gallons per year. Should the EC market for FCOJ be lost to Florida producers, the industry would experience an estimated 30 million dollar loss at the F.O.B. level during the next five year period.

TABLE I

ESTIMATED NET CHANGE IN DOMESTIC SUPPLIES, PRICES AND REVENUE RESULTING FROM LOSS OF EC MARKETS

	Net increase in domestic supply[1]	Net decrease in FCOJ price[2]	Net decrease in revenues (millions)
Season:			
1971–72	2.8	3	$1.7
1972–73	11.2	11	8.2
1973–74	6.8	6	4.6
1974–75	6.8	7	6.2
1975–76	7.2	7	6.3
1976–77	9.2	10	8.2
1977–78	7.6	7	6.8
1978–79	6.8	6	6.0
1979–80	6.0	5	5.1
1980–81	6.0	4	3.3

[1] Million single strength gallons.
[2] Cents per gallon of 45° brix frozen concentrated orange juice.

Source: Economic Research Department, Florida Department of Citrus.

TABLE I.—Continued

ESTIMATED SHARES OF FLORIDA ORANGE AND GRAPEFRUIT JUICE PACKS EXPORTED TO ALL, AND TO EC MARKETS, 1971-72 TO 1974-75 SEASONS

[In million equivalent single strength gallons]

Season and juice	Orange juice: Florida pack	Orange juice: Exports, ensuing calendar year: U.S. total	Orange juice: Exports, ensuing calendar year: Estimate Florida: Total	Orange juice: Exports, ensuing calendar year: Estimate Florida: To EC	Grapefruit juice: Florida pack	Grapefruit juice: Exports, ensuing calendar year: U.S. Total	Grapefruit juice: Exports, ensuing calendar year: Estimate Florida: Total	Grapefruit juice: Exports, ensuing calendar year: Estimate Florida: To EC
1971-72:								
Frozen concentrate	536.9	37.5	37.5	8.2	35.2	4.6	4.6	1.2
Single strength:								
Chilled	117.0				17.4			
Canned	36.9				73.2			
Total	153.9	8.9	8.0	1.9	90.6	5.2	3.9	.8
Total (all)	690.8		45.5	10.1	125.8		8.5	2.0
Exports as percent of pack			6.6	1.5			6.8	1.6
1972-73:								
Frozen concentrate	704.4	49.9	49.9	12.6	34.6	6.0	6.0	2.6
Single strength:								
Chilled	125.7				16.1			
Canned	46.1				65.3			
Total	171.8	10.4	9.4	2.4	81.4	5.2	3.9	.8
Total (all)	875.2		59.3	15.0	116.0		9.9	3.4
Exports as percent of pack			6.8	1.7			8.5	2.9
1973-74:								
Frozen concentrate	687.4	53.2	53.2	7.8	36.1	4.5	4.5	1.0
Single strength:								
Chilled	135.3				17.4			
Canned	36.7				70.0			
Total	172.0	10.0	9.0	1.9	87.4	5.5	4.1	.6
Total (all)	859.4		62.2	9.7	123.5		8.6	1.6
Exports as percent of pack			7.2	1.2			7.0	1.3
1974-75:								
Frozen concentrate	712.7	61.0	61.0	12.0	31.4	5.6	5.6	1.1
Single strength:								
Chilled	154.5				20.5			
Canned	36.2				55.3			
Total	190.7	10.5	9.5	2.2	75.8	4.9	3.7	.7
Total (all)	903.4		70.5	14.2	107.3		9.3	1.8
Exports as percent of pack			7.8	1.6			8.7	1.7

Source of data: USDA, Foreign Agricultural Service and State of Florida, Department of Citrus.

TABLE II.—EXPORTS OF CONCENTRATED ORANGE JUICE FROM BRAZIL BY PRINCIPAL DESTINATIONS, 1970–75

[In million equivalent single strength gallons]

	Destination					
	EC	Other Europe	Canada	United States	Other	Total
Calendar year:						
1970	31.0	1.8	5.5	1.3	3.3	42.9
1971	50.9	4.0	13.3	30.0	1.0	99.2
1972	63.6	10.1	13.7	22.6	1.8	111.8
1973	108.6	17.3	11.3	14.1	3.8	155.1
1974	73.7	23.3	9.5	29.6	3.0	139.1
1975	121.3	37.8	27.1	26.4	[1] 19.4	232.0

[1] Of which 11.4 single strength gallons went to Israel, 1 of the countries which has been granted preferential duty reductions by the EC.

Source of data: USDA Foreign Agricultural Service.

TABLE III.—EXPORTS OF ORANGE JUICE, BY TYPE, FROM THE UNITED STATES TO PRINCIPAL DESTINATIONS, 1970–75

[In million equivalent single strength gallons]

Type of juice/ Calendar year	Destination			
	EC	Canada	Others	Total
FCOJ:				
1970	6.7	16.8	3.9	27.4
1971	5.7	17.7	11.9	35.3
1972	8.2	20.0	9.3	37.5
1973	12.6	23.5	13.8	49.9
1974	7.8	28.5	16.9	53.2
1975	12.0	32.3	16.7	61.0
HPOJ:				
1970	6.1	.9	2.3	9.3
1971	4.7	.6	3.6	8.9
1972	3.2	.8	3.2	7.2
1973	3.0	.2	4.0	7.2
1974	3.3	.3	3.5	7.1
1975	2.4	.4	2.8	5.6
SSOJ:[1]				
1970	3.1	5.3	4.2	12.6
1971	3.0	6.2	1.2	10.4
1972	2.4	5.4	1.1	8.9
1973	3.0	6.0	1.7	10.7
1974	2.4	6.0	1.6	10.0
1975	2.8	6.0	1.7	10.5
Total:				
1970	15.9	23.0	10.4	49.3
1971	13.4	24.5	16.7	54.6
1972	13.8	26.2	13.6	53.6
1973	18.5	29.7	19.5	65.0
1974	13.5	34.8	22.0	70.3
1975	17.2	38.7	21.2	77.1

[1] Includes orange share of blended juice.

Source of data: U.S.D.A., Foreign Agricultural Service.

TABLE IV.—EXPORTS OF ORANGE JUICE, BY TYPE, FROM ISRAEL TO PRINCIPAL DESTINATIONS, 1970–77

[In million equivalent single strength gallons]

Type of juice/Calendar year	Destination: EC	Destination: Other Europe	Destination: Others	Total
FCOJ:				
1970	3.7	2.3	0.3	6.3
1971	6.8	2.1	.2	9.1
1972	12.4	4.6	.2	17.5
1973	13.1	4.2	.2	17.5
1974	15.8	4.3	.3	20.4
1975	11.8	3.7	.8	16.3
SSOJ:				
1970	6.3	2.5	.2	9.0
1971	10.0	2.0	.1	12.1
1972	10.8	2.7	.4	13.9
1973	11.2	2.2	.3	13.7
1974	12.0	1.6	.5	14.1
1975	12.6	1.9	.4	14.9
Total OJ:				
1970	10.0	4.8	.5	15.3
1971	16.8	4.1	.3	21.2
1972	23.2	7.3	.6	31.4
1973	24.4	6.3	.5	31.2
1974	27.8	5.9	.8	34.5
1975	24.4	5.6	1.2	31.2

Source of data: USDA, Foreign Agricultural Service.

TABLE V.—EXPORTS OF ORANGE JUICE, BY TYPE, FROM SPAIN TO PRINCIPAL DESTINATIONS, 1970–74

[In million equivalent single-strength gallons]

Type of juice/calendar year	Destination: EC	Destination: Other Europe	Destination: Others	Total
FCOJ:				
1970	6.6	0.9	0.3	7.8
1971	6.7	.7	(1)	7.4
1972	7.6	.9	(1)	8.5
1973	7.6	.7	(1)	8.3
1974	6.8	.6	(1)	7.4
1975				
SSOJ:				
1970	2.3	.3	(1)	2.6
1971	2.5	.2	.1	2.8
1972	2.9	.2	.1	3.2
1973	2.3	.3	(1)	2.6
1974	2.4	.2	(1)	2.6
1975				
Total:				
1970	8.9	1.2	.3	10.4
1971	9.2	.9	.1	10.2
1972	10.5	1.1	.1	11.7
1973	9.9	1.0	(1)	10.9
1974	9.2	.8	(1)	10.0
1975				

[1] Less than 50,000 gallons.

Source of data: USDA, Foreign Agricultural Service.

85-821 O - 82 - 14

TABLE VI.—EXPORTS OF ORANGE JUICE, BY TYPE, FROM GREECE TO PRINCIPAL DESTINATIONS, 1970–74

[In million equivalent single strength gallons]

Type of juice/Calendar year	Destination: EC	Destination: Eastern Europe	Destination: Others	Total
FCOJ:				
1970	NA	NA	NA	3.0
1971	NA	NA	NA	4.4
1972	NA	NA	NA	8.5
1973	1.1	8.1	0	9.2
1974	1.0	5.5	.1	6.6
SSOJ:				
1970	NA	NA	NA	3.0
1971	NA	NA	NA	4.2
1972	NA	NA	NA	4.6
1973	1.6	2.7	.4	4.7
1974	.3	1.9	.2	2.4
Total:				
1970	NA	NA	NA	6.0
1971	NA	NA	NA	8.6
1972	NA	NA	NA	13.1
1973	2.7	10.8	.4	13.9
1974	1.3	7.4	.3	9.0

Source of data: USDA, Foreign Agricultural Service.

TABLE VII.—EXPORTS OF GRAPEFRUIT JUICE, BY TYPE, FROM THE UNITED STATES TO PRINCIPAL DESTINATIONS, 1970–75

[In million equivalent single strength gallons]

Type of juice/Calendar year	Destination: EC	Destination: Canada	Destination: Others	Total
FCGJ:				
1970	1.0	1.8	1.1	3.9
1971	1.2	1.7	1.3	4.2
1972	1.2	2.7	.7	4.6
1973	2.6	2.7	.7	6.0
1974	1.0	3.3	.2	4.5
1975	1.1	3.5	1.0	5.6
HPGJ:				
1970	.6	.5	1.0	2.1
1971	.6	.1	1.1	1.8
1972	.6	.2	.8	1.6
1973	.4	.6	1.2	2.2
1974	.5	.4	.8	1.6
1975	.3	.1	.8	1.2
SSGJ:[1]				
1970	1.4	3.8	1.1	6.3
1971	1.4	3.4	.4	5.2
1972	1.0	3.8	.4	5.2
1973	1.0	3.7	.5	5.2
1974	.8	4.0	.7	5.5
1975	.9	3.5	.5	4.9
Total:				
1970	3.0	6.1	3.2	12.3
1971	3.2	5.2	2.8	11.2
1972	2.8	6.7	1.9	11.4
1973	4.0	7.0	2.4	13.4
1974	3.2	7.7	1.7	11.6
1975	3.3	7.1	2.3	11.7

[1] Includes grapefruit share of blended juice.

Source of data: USDA, Foreign Agricultural Service.

TABLE VIII.—EXPORTS OF GRAPEFRUIT JUICE, BY TYPE, FROM ISRAEL TO PRINCIPAL DESTINATIONS, 1970–75

[In million equivalent single strength gallons]

Type of juice/Calendar year	Destination: EC	Destination: Other Western Europe	Destination: Others	Total
FCGJ:				
1970	0.6	0.1	(1)	0.7
1971	1.1	.2	(1)	1.3
1972	1.4	.3	0.1	1.8
1973	2.1	.2	.2	2.5
1974	2.4	.2	.1	2.7
1975	4.6	.3	.1	5.0
SSGJ:				
1970	3.0	.3	.1	3.4
1971	5.7	.5	.2	6.4
1972	6.5	.4	.1	7.0
1973	7.4	.4	.1	7.9
1974	6.5	.3	.3	7.1
1975	5.3	.5	.5	6.3
Total GJ:				
1970	3.6	.4	.1	4.1
1971	6.8	.7	.2	7.7
1972	7.9	.7	.2	8.8
1973	9.5	.6	.3	10.4
1974	8.9	.5	.4	9.8
1975	9.9	.8	.6	11.3

[1] Less than 50,000 gallons.

Source of data: USDA, Foreign Agricultural Service.

TABLE IX.—EXPORTS OF GRAPEFRUIT JUICE, BY TYPE, FROM GREECE TO PRINCIPAL DESTINATIONS, 1970–74

[In million equivalent single strength gallons]

Type of juice/Calendar year	Destination: EC	Destination: Eastern Europe	Destination: Others	Total
FCGJ:				
1970	NA	NA	NA	(1)
1971	NA	NA	NA	0.1
1972	NA	NA	NA	.2
1973	0.2	0.4	(1)	.6
1974	(1)	.4	0	.4
SSGJ:				
1970	NA	NA	NA	2.3
1971	NA	NA	NA	4.8
1972	NA	NA	NA	5.9
1973	3.1	1.0	0.2	4.3
1974	1.4	1.5	.1	2.0
Total GJ:				
1970	NA	NA	NA	2.3
1971	NA	NA	NA	4.9
1972	NA	NA	NA	6.1
1973	3.3	1.4	.2	4.9
1974	1.4	1.9	.1	3.4

[1] Less than 50,000 gallons.

Source of data: USDA, Foreign Agricultural Service.

The Impact of Developing Florida Citrus Juice Markets in Japan: A Background Paper [1]

SUMMARY

1. The Japanese production of Mikan oranges has remained relatively stable since 1972–73 after an increase of threefold during the previous decade. Mikan production dominates Japanese orange output with 86.4 percent of total orange production.
2. Due to the sensitive nature of fresh Mikan prices to volume, a crop thinning program has been implemented during three of the past four seasons.
3. Although 80–85 percent of the Mikan oranges produced in Japan are marketed fresh, the quantity processed into juice has been increasing rapidly in recent years.
4. Most orange juice produced in Japan is consumed as drinks containing 40–50 percent juice and is used as a refresher rather than at meals.
5. Grower prices have been generally weaker in recent years, with the exception of the 1976–77 season due to a smaller crop resulting from poor weather.
6. A proposed blend of 60 percent Mikan juice and 40 percent Florida orange juice has been suggested as an acceptable retail juice product for Japan. However, markets must be developed and Japanese citrus growers should not be harmed economically.
7. Statistical relationships developed for the Japanese Mikan orange industry indicate that for a given crop size, diverting oranges from the fresh to the processed juice market will increase weighted average grower prices. This is further evidence of the extreme price sensitivity of the fresh Mikan market to changes in fresh sales.
8. In the Florida situation, sales of processed grapefruit products were not found to have a significant influence on returns to orange growers. There is no reason to suspect that the introduction of processed grapefruit products into Japan would be detrimental to Japanese orange producer returns.
9. Development of processed citrus juice markets in Japan appear to be viable considerations which should benefit both the Japanese citrus industry as well as the Florida citrus industry.

INTRODUCTION

The purpose of this paper is to assemble and develop background information with respect to the Japanese citrus situation and to estimate the impact on the Japanese citrus industry of developing markets for Florida orange juice and grapefruit juice in Japan. Specifically, the primary objective is to estimate the impact on the Japanese Mikan orange grower of importing Florida FCOJ for blending with Mikan orange juice for the retail market. A second objective concerns evaluation of the potential impact of developing a grapefruit juice market in Japan.

The remainder of this paper will first examine the current citrus situation in Japan with respect to production, utilization, consumption and grower returns, and the projected Japanese situation. Secondly, the economic impact of importing Florida processed citrus products is assessed through a review of the Florida citrus experience with processed citrus products and an evaluation of the economic relationships for Japanese citrus.

THE CURRENT SITUATION IN JAPAN

Production

The production of Mikan oranges has remained relatively stable since the 1972–73 season after having increased nearly threefold during the previous decade (table 1). Mikan production dominates the orange output of Japan with 86.4 percent of total orange production during the 1976–77 season. The recent production trends of summer oranges, mandarin hybrids and navel oranges are shown in tables 2, 3, and 4.

---

[1] Prepared by Dr. Gary F. Fairchild, Research Economist, Economic Research Department, Florida Department of Citrus, University of Florida, Gainesville, Florida, for members of the U.S. Japan Citrus Trade Committee, May 2, 1978.

TABLE 1.—JAPAN: MIKAN PRODUCTION, UTILIZATION, ANNUAL PACK, AND GROWER PRICES

Season	Production	Season [1] utilization (1,000 metric tons fruit)					Calendar year [2] pack			Season [1] average grower price (1,000 yen per metric ton [4])			Calendar year canned exports (metric tons)
		Fresh domestic	Export	Canned sections	Juice	Other	Canned (metric tons)	5:1 concentrate (metric tons [3])	Single strength (gallons)	Domestic	Export	Processing	
1960-61	894												
1961-62	876												
1962-63	898												
1963-64	974												
1964-65	1,229	989.5	15.2	167.5	48.3	8.5	(5)	(5)	(5)	(5)	(5)	(5)	(5)
1965-66	1,331	1,077.0	16.0	196.0	36.0	6.0	(5)	(5)	(5)	69	94	10	(5)
1966-67	1,750	1,412.0	19.5	270.0	43.5	5.0	162,800	2,500	6,695	61	81	33	65,676
1967-68	1,605	1,309.0	19.0	200.0	70.0	7.0	164,640	2,649	7,611	74	91	37	72,750
1968-69	2,352	2,000.2	23.8	240.0	80.0	8.0	155,510	2,776	7,756	52	97	35	64,842
1969-70	2,038	1,677.7	23.3	240.0	90.0	7.0	155,098	4,714	10,677	97	93	38	66,397
1970-71	2,552	2,167.2	24.8	245.0	110.0	5.0	147,780	7,507	14,690	88	100	35	63,606
1971-72	2,489	2,125.2	25.8	210.0	125.0	3.0	141,748	11,477	12,020	88	104	42	80,224
1972-73	3,568	2,945.3	21.7	294.0	305.0	2.0	140,703	25,412	14,974	50	80	20	58,106
1973-74	3,389	2,698.0	24.0	302.0	364.0	1.0	182,948	34,751	37,226	63	65	26	68,412
1974-75	3,383	2,838.9	21.2	181.9	340.0	1.0	201,841	31,227	43,280	91	132	25	64,488
1975-76	3,665	2,880.5	18.5	225.0	540.0	1.0	150,543	48,650	39,565	72	138	25	53,735
1976-77	3,088	2,260.6	19.9	245.3	561.4	.8	166,169	50,830	61,449	136	162	40	54,302
1977-78	3,544	(5)	21.0	(5)	(5)	(5)	180,000	70,000	68,000	(5)	(5)	(5)	(5)

[1] Season begins with new harvest in fall of 1st year shown. Normal harvest season is September to December; marketing season September to April.
[2] Calendar year data is for 1st year shown in left hand margin season column.
[3] Weight of 5:1 concentrate.
[4] Exchange rates yen to the dollar: 1965-66 to 1970-71=360; 1971-72 to 1972-73=308; 1973-74 to 1975-76=300; 1976-77=297.
[5] Data not available.

Source: Foreign Agricultural Service, Fruit and Vegetable Division-FCA, [4].

TABLE 2.—JAPAN: SUMMER ORANGE (NATSO-MIKAN) PRODUCTION, UTILIZATION, ANNUAL PACK, AND GROWER PRICE

Season	Production (metric tons)	Season [1] utilization (metric tons)				Calendar year [2] pack, 5:1 concentrate [3] (metric tons)	Season average grower pack, domestic (1,000 yen per metric ton)
		Domestic	Export	Juice	Other		
1960–61							
1961–62							
1962–63							
1963–64	199,700	170,200	0	25,000	4,500	(5)	(5)
1964–65	228,900	193,400	0	30,000	5,500	(5)	(5)
1965–66	241,300	199,500	0	35,000	6,800	1,505	41
1966–67	236,000	195,000	0	35,000	6,000	1,637	49
1967–68	250,800	202,800	0	40,000	8,000	1,730	40
1968–69	345,600	268,600	0	70,000	7,000	2,257	51
1969–70	253,000	170,400	0	75,000	7,600	2,950	45
1970–71	337,000	247,000	0	83,000	7,000	3,175	80
1971–72	279,000	179,000	0	95,000	5,000	4,379	54
1972–73	355,000	270,000	0	80,000	5,000	3,400	70
1973–74	309,700	215,700	0	91,000	3,000	3,884	44
1974–75	371,700	293,700	0	75,000	3,000	3,300	60
1975–76	350,500	282,000	0	66,000	2,500	3,591	56
1976–77	273,500	216,000	0	55,000	2,500	3,500	75
1977–78	(5)	(5)	(5)	(5)	(5)	(5)	(5)

[1] Season begins with Natso-Mikan harvest in fall of year shown. Normal summer orange harvest is February to May; marketing season is February to April.
[2] Calendar pack data is for 2d year shown in left-hand season column.
[3] Product weight.
[4] Exchange rates yen to the dollar: 1965–66 to 1970–71=360; 1971–72 to 1972–73=308; 1973–74 to 1975–76=300; 1976–77=297.
[5] Data not available.

Source: Foreign Agricultural Service, Fruit and Vegetable Division-FCA, [4].

TABLE 3.—JAPAN: MANDARIN HYBRIDS [1] PRODUCTION, UTILIZATION

[In metric tons]

Season [2]	Season [2] Fresh Fruit Utilization				
	Production	Domestic	Export	Juice	Other
1960–61					
1961–62					
1962–63					
1963–64					
1964–65	70,100	70,100	0	0	0
1965–66	71,300	71,300	0	0	0
1966–67	88,500	88,500	0	0	0
1967–68	95,200	95,200	0	0	0
1968–69	126,300	126,300	0	0	0
1969–70	123,700	123,700	0	0	0
1970–71	97,100	97,100	0	0	0
1971–72	120,000	120,000	0	0	0
1972–73	135,700	135,700	0	0	0
1973–74	152,800	152,800	0	0	0
1974–75	188,900	188,900	0	0	0
1975–76	203,700	203,700	0	0	0
1976–77	198,700	198,700	0	0	0
1977–78	220,000	220,000	0	0	0

[1] Mostly Iyokan and Hassaku.
[2] Season covers citrus production from Natso-Mikan harvest in fall of 1st year shown. Normal harvest season for Iyonian and Hassamus is January to March; marketing season is February to May.

Source: Foreign Agricultural Service, Fruit and Vegetable Division-FCA, [4].

TABLE 4.—JAPAN: NAVEL ORANGE PRODUCTION, UTILIZATION

[In metric tons]

Season	Production	Utilization [1]	Season	Production	Utilization [1]
1960-61	9,000		1969-70	8,300	
1961-62	10,000		1970-71	8,200	
1962-63	9,000		1971-72	8,500	
1963-64	6,000		1972-73	11,000	
1964-65	7,900		1973-74	12,200	
1965-66	7,900		1974-75	13,900	
1966-67	8,700		1975-76	14,900	
1967-68	7,700		1976-77	15,200	
1968-69	9,400		1977-78	15,500	

[1] Data not available. All production believed to have been consumed fresh in domestic market.

Source: Foreign Agricultural Service, Fruit and Vegetable Division-FCA [4].

In Japan, the rate of plantings of new citrus trees, especially of the satsuma (unshu or mikan orange) type has been extremely fast in the past 15 or 20 years. Between 1963 and 1968, the area planted under satsumas increased at an annual rate of more than 10,000 hectares. After 1968 the rate of new plantings decreased but the total area continued to rise. However, from 1974 on, the possibility of continued over-expansion and very low grower prices led to the establishment of acreage targets as guidelines for orderly expansion. As a result of these restrictive measures new plantings in 1975 amounted to only 500 hectares while in 1976 the total area actually decreased. At the same time short-term adjustment measures were introduced, such as subsidized thinning under the "Voluntary Mikan Production Adjustment Programme", and assistance in processing. However, the sharp drop in the 1976-77 satsuma crop is due to unfavorable weather [9].

Reportedly, most of the acreage taken out of Mikan production is being replanted to other late varieties of citrus fruit such as Navel oranges, Iyokan, Hassaku, etc. FAS [6] reports that it is reasonable to expect a leveling off of planted citrus area over the next two or three years.

According to Japan's Ministry of Agriculture and Forestry (MAF) (as of December 1, 1977) the 1977 crop of Mikan oranges is estimated at 3,544,000 metric tons, up 15 percent from the previous year. In an attempt to maintain Mikan market prices at a level desired by growers, the Japan Fruit Growers Cooperative Association (NICHIENREN), in cooperation with the Government, is currently implementing a fruit thinning program similar to the programs of 1974 to 1975. NICHIENREN's target is to reduce the 1977 crop to 3.1 million MT, a reduction of over 600,000 MT from the MAF forecast. However, it is generally anticipated at present that the actual Mikan harvest in 1977 will amount to around 3.4 million MT [6]. Due to the increased availability, the 1977 Mikan crop is currently being marketed at lower prices than the previous season.

Utilization

Although 80-85 percent of the Mikan oranges produced in Japan continues to be marketed fresh, the quantity processed into juice has been increasing rapidly in recent years (approximately ten fold over the past decade). During the 1976-77 season, the percent marketed fresh decreased to 73 percent due to a smaller Mikan crop being harvested (Table 1). All of the mandarin hybrids and Navel oranges are apparently utilized in fresh form, while approximately 75-80 percent of the Summer orange production is consumed in fresh form (Tables 2, 3 and 4).

Consumption

Per capita consumption of domestically produced fresh citrus fruit is shown in Table 5. The Mikan orange accounts for approximately 85 percent of the Japanese consumption of oranges and tangerine-type fruit. Per capita consumption of fresh oranges and tangerines in Japan is approximately three times greater than in the United States.

Production and consumption of fruit juices in general and orange juices in particular have been increasing in recent years in Japan. However, the volume consumed is still very small compared to fresh consumption. The vast majority of orange juice produced in Japan is consumed in the form of orange drinks containing 40-50 percent juice. Consumption of grapefruit juice in Japan is practically non-existent, with U.S. exports of grapefruit juice to Japan totaling only 700,000 single strength gallons in calendar year 1977.

Most of the juice in Japan is used as a refresher. Very few people drink juice with a meal. The consumption of juice is very much influenced by the temperature in the summer and the climate of holidays in the fall. The consumption of juice would be enhanced considerably if the Japanese should begin to consume juice with meals [8].

TABLE 5.—JAPANESE PER CAPITA CONSUMPTION OF DOMESTICALLY PRODUCED FRESH CITRUS FRUIT BY VARIETY

[In pounds per capita]

Season	Mikan	Mandarin hybrids	Summer orange (Natso-Mikan)	Navel	Total
1965–66	24.0	1.6	4.4	0.2	30.2
1966–67	31.0	2.0	4.3	.2	37.5
1967–68	28.5	2.1	4.4	.2	35.2
1968–69	43.1	2.7	5.8	.2	51.8
1969–70	35.7	2.6	3.6	.2	42.1
1970–71	45.7	2.0	5.2	.2	53.1
1971–72	43.7	2.5	3.7	.2	50.1
1972–73	59.9	2.8	5.5	.2	68.4
1973–74	54.2	3.1	4.3	.2	61.8
1974–75	56.4	3.8	5.8	.3	66.3
1975–76	56.5	4.0	5.5	.3	66.3
1976–77	43.8	3.8	4.2	.3	52.1

Source: Calculated by Economic Research Department, Florida Department of Citrus from FAS–USDA [4].

Grower returns

Although extensive crop thinning programs have been utilized in recent years in an attempt to improve prices, there has been a general weakening of grower prices for Mikan oranges in recent year. The 1976–77 season represents an exception due to the smaller crop resulting from unfavorable weather conditions.

PROJECTED JAPANESE SITUATION

FAO [9] estimates of Japanese tangerine and clementine (Mikan) production for 1980 suggest a modest increase to 3.8 million metric tons compared to 3.665 million in 1975–76, 3.088 million in 1976–77, and an estimated 1977–78 production of 3.544 million metric tons. Based on grower prices in recent years, without the introduction of new citrus products or the expansion of demand for existing products, grower prices may continue to weaken through 1980.

Although there is no data available as to expected citrus consumption in Japan, recent trends would indicate that production of canned Mikan sections will remain relatively constant while the volume utilized for juice will continue to increase rapidly. The volume of Mikans utilized in fresh form will continue to fluctuate in direct relation to the crop size.

ECONOMIC IMPACT OF FLORIDA CITRUS JUICES

Consumer acceptance of orange juice blends

By U.S. standards, the juice from the Mikan orange is rather heavy and sour. Based on the extremely small amount apparently consumed as pure juice in Japan, Mikan juice may not be particularly palatable to the Japanese taste either. Taste tests conducted in the U.S. indicate that a blend of 60 percent Florida juice and 40 percent Mikan juice represents a very acceptable product by U.S. standards. However, based on Japanese taste tests and economic considerations, a blend of 40 percent Florida juice and 60 percent Mikan juice has been recommended. Since the Japanese consumer is accustomed to orange drinks, it appears that a market development program would be required for the successful introduction of a blended pure juice product. However, based on the acceptance of Florida fresh grapefruit, it appears that the Japanese consumer is quick to accept quality citrus products.

Summary of Florida experience

Florida orange production since 1941–42 is shown in Table 6. Also included are the boxes utilized in fresh form and for FCOJ, as well as the total percent of the crop processed. It is apparent that the total orange crop has grown dramatically over this 35 year period. But even more dramatic has been the growth of boxes utilized for FCOJ since its introduction in the mid-forties and the percent of the orange crop utilized in processed form.

TABLE 6.—UTILIZATION OF FLORIDA ORANGES FOR FRESH, FCOJ AND TOTAL PROCESSED, 1941–42 THROUGH 1975–76 SEASONS.

[In thousand 1⅗ bu. box equivalents]

Season	Production	Fresh	FCOJ	Total percent processed
1941–42	27,200	22,753	0	15
1942–43	37,200	30,552	0	17
1943–44	46,200	34,889	0	24
1944–45	42,800	28,186	0	33
1945–46	49,800	30,280	0	38
1946–47	53,700	32,564	466	38
1947–48	58,400	27,579	1,600	52
1948–49	58,300	31,048	8,320	46
1949–50	57,800	23,393	17,797	59
1950–51	66,200	24,935	23,084	61
1951–52	76,900	30,643	31,579	59
1952–53	70,500	25,849	32,646	62
1953–54	89,100	27,846	48,272	68
1954–55	85,900	27,157	44,643	68
1955–56	88,200	25,566	49,119	71
1956–57	90,300	22,616	48,741	73
1957–58	81,000	17,557	43,810	78
1958–59	82,800	15,435	52,437	80
1959–60	87,600	18,890	51,748	76
1960–61	82,700	15,113	55,819	80
1961–62	108,800	19,374	73,716	81
1962–63	72,500	11,427	47,099	84
1963–64	54,900	11,939	34,137	78
1964–65	82,400	14,598	54,467	80
1965–66	95,900	15,382	61,805	83
1966–67	139,500	17,876	96,752	86
1967–68	105,500	17,096	61,965	81
1968–69	129,700	13,304	92,125	89
1969–70	137,700	13,263	100,739	90
1970–71	142,300	13,962	103,521	90
1971–72	137,000	11,233	104,399	93
1972–73	169,700	12,223	132,210	93
1973–74	165,800	11,090	132,469	94
1974–75	173,300	13,393	135,512	93
1975–76	181,200	11,730	144,526	[illegible]

Source: Calculated from Florida Crop & Livestock Reporting Service [3] by ERD-FDOC.

Consumption of fresh citrus and Florida oranges consumed as processed orange juice on a per capita basis in the U.S. since 1941–42 is presented in Table 7. Also included in the same table are per capita consumption figures for seven other fruits in the United States. Per capita consumption of many fruits in the U.S. including oranges, declined during the 1940's and 1950's and have remained relatively stable since 1960. However, on a per capita basis, consumption of grapefruit and tangerines has remained fairly constant since the early 1940's.

Per capita consumption of frozen, chilled and canned orange juice produced from Florida oranges is shown in terms of pounds of Florida oranges consumed per capita in the form of processed orange juice. Pounds per capita of Florida oranges consumed as pure orange juice have increased dramatically during the 35 year period shown in Table 7. This increase in processed consumption has more than offset the decrease in fresh orange consumption during the period from the mid-forties to the early sixties.

Prices received by farmers for selected fresh fruits, including oranges, grapefruit and tangerines since 1941–42 are detailed in Table 8. Prices are in terms of actual dollars received. The trends in prices received for fresh citrus appear to be similar to the trends of several other fresh fruits, ever though consumption of processed citrus increased dramatically during this period as noted in Table 7.

TABLE 7.—U.S. PER CAPITA CONSUMPTION OF SELECTED FRESH FRUITS AND FLORIDA ORANGES CONSUMED IN PROCESSED JUICE FORM

Year	Consumption per capita (pounds)									
	Apples	Bananas	Peaches	Grapes	Pears	Prunes plums	Strawberries	Grapefruit	Oranges and tangerines	Florida oranges as processed juice [1]
1942	28.1	8.0	14.6	6.2	6.7	2.4	3.4	12.1	41.2	2.8
1943	24.9	7.0	8.4	5.6	5.4	2.2	1.8	12.5	42.6	4.2
1944	25.5	9.0	17.9	4.9	7.1	2.7	1.2	13.0	50.1	7.1
1945	22.9	12.1	18.2	5.6	7.3	2.3	1.3	13.5	47.8	9.2
1946	23.0	14.7	16.6	5.7	6.8	2.7	1.6	14.0	40.3	12.2
1947	25.4	21.5	14.8	6.6	5.9	2.3	1.9	13.9	43.4	12.4
1948	26.3	22.4	11.3	5.8	4.4	2.1	1.8	12.3	37.5	18.6
1949	24.7	20.8	11.6	5.2	5.5	2.4	1.6	10.9	32.8	16.1
1950	22.7	20.9	7.8	5.4	4.1	1.8	1.6	8.2	28.9	20.5
1951	25.7	20.5	9.4	5.9	4.1	2.2	1.8	10.8	30.8	24.4
1952	21.6	20.6	10.8	6.0	4.4	1.7	1.6	11.1	30.0	37.1
1953	20.9	10.5	10.3	4.8	3.9	2.0	1.4	10.3	29.9	25.8
1954	20.0	18.9	10.0	5.1	3.7	1.4	1.2	11.7	26.6	29.4
1955	19.6	17.8	6.1	5.0	3.4	1.7	1.2	11.3	27.0	30.6
1956	18.9	18.0	9.0	4.7	3.7	1.9	1.5	11.1	24.6	31.1
1957	19.3	18.0	8.6	3.9	3.7	1.5	1.7	10.1	23.5	33.7
1958	22.5	17.2	10.5	4.1	3.5	1.1	1.5	9.1	18.6	33.9
1959	21.1	18.2	9.7	3.8	3.2	1.6	1.4	9.6	21.3	29.9
1960	18.3	20.5	9.5	3.9	2.6	1.2	1.3	10.0	20.5	35.3
1961	16.4	20.0	9.7	3.5	2.6	1.3	1.6	9.8	17.9	33.2
1962	17.4	16.4	8.1	4.0	2.6	1.3	1.6	9.0	17.2	42.7
1963	16.7	16.7	7.6	4.0	2.0	1.3	1.6	6.4	12.8	36.3
1964	17.9	16.9	6.0	3.6	2.4	1.5	1.7	7.5	15.7	21.0
1965	16.3	17.9	6.8	3.9	1.8	1.4	1.3	8.2	17.9	25.2
1966	16.1	18.3	6.2	3.8	2.4	1.2	1.4	8.4	17.8	34.3
1967	16.2	18.3	4.9	3.1	1.8	1.3	1.5	9.0	19.6	43.4
1968	15.7	18.5	6.6	3.4	2.0	1.3	1.8	8.0	15.3	41.1
1969	14.9	17.9	6.8	3.1	2.3	1.1	1.7	7.8	17.6	49.1
1970	18.3	17.6	5.7	2.5	2.1	1.5	1.8	8.2	17.5	49.0
1971	16.2	18.2	5.7	2.1	2.3	1.3	1.9	8.6	17.4	56.7
1972	17.4	18.1	4.1	1.8	2.4	1.1	1.7	8.6	15.9	53.5
1973	14.5	18.4	4.4	2.1	2.5	1.2	1.6	8.6	16.0	58.9
1974	15.9	18.7	4.3	2.3	2.3	1.6	1.8	8.3	16.1	64.8
1975	17.9	19.8	5.1	3.3	2.8	1.4	1.8	8.5	18.1	68.6
1976	17.0	21.6	5.2	3.2	2.7	1.3	1.7	9.3	16.8	71.8

[1] Equivalent per capita pounds of Florida oranges consumed as 100 percent processed orange juice (frozen, chilled, and canned).

Source: Florida Citrus Mutual [2] and ERD–FDOC calculations from [1, 2].

TABLE 8.—PRICES RECEIVED BY U.S FARMERS FOR SELECTED FRESH FRUITS, 1941-42 THROUGH 1974-75 SEASON

Season	Cents per pound						O.T. price (per box)		
	Apples	Grapes	Pears	Peaches	Plums	Strawberries	Oranges	Grapefruit	Tangerines
1941 42	2.37	1.78	2.81	3.06	4.59	8.8	$1.48	$0.72	$1.34
1942–43	4.27	3.11	4.23	5.49	8.45	17.6	2.38	1.17	1.18
1943–44	3.87	3.91	3.87	4.69	5.90	22.1	2.53	1.46	1.89
1944–45	5.53	2.93	3.79	4.51	6.90	23.9	2.59	1.62	2.11
1945–46	4.38	4.66	4.23	4.24	6.75	27.0	2.79	1.37	2.64
1946–47	3.31	1.97	3.31	3.29	7.70	20.8	1.58	.98	1.58
1947–48	4.07	1.92	4.44	4.02	7.25	22.2	1.34	.57	.99
1948–49	2.44	1.78	1.79	3.00	5.05	20.0	1.77	.95	1.51
1949–50	3.00	3.39	3.60	4.16	8.65	20.9	2.16	1.93	1.92
1950–51	3.42	2.00	4.25	4.12	7.10	18.5	2.04	1.22	1.99
1951–52	4.82	2.00	2.75	4.08	11.35	18.6	2.01	.91	1.56
1952–53	5.09	2.42	3.17	3.88	7.80	19.3	1.52	1.16	1.76
1953–54	4.44	2.58	3.54	4.06	8.60	19.4	2.08	.98	2.10
1954–55	3.64	2.16	3.38	4.47	8.50	20.0	1.95	1.07	1.78
1955–56	4.69	2.58	3.71	4.31	7.15	17.8	2.48	1.06	2.23
1956–57	3.36	3.14	3.12	4.37	9.75	14.2	2.28	1.42	2.31
1957–58	3.31	3.38	3.71	3.90	9.45	16.0	3.34	1.59	2.86
1958–59	3.80	2.76	3.38	3.88	7.55	17.9	2.96	1.46	2.42
1959–60	4.87	2.76	4.12	3.80	9.35	19.1	3.00	1.34	3.26
1960–61	4.26	2.76	4.62	3.95	6.05	17.5	3.74	1.24	2.18
1961–62	4.28	3.14	3.62	3.87	4.10	18.0	3.19	1.11	2.72
1962–63	4.07	2.66	5.55	4.35	6.15	18.7	3.96	2.13	3.63
1963–64	3.86	3.14	4.62	4.60	3.10	20.0	4.10	2.65	3.95
1964–65	4.32	2.26	6.60	4.42	4.16	22.1	3.03	2.04	3.49
1965–66	4.47	2.78	4.39	5.13	4.98	22.2	2.49	1.96	2.80
1966–67	5.57	3.47	8.20	6.26	4.79	20.5	2.01	1.35	1.53
1967–68	6.11	3.33	6.75	5.29	5.70	21.3	3.83	2.78	5.44
1968–69	4.06	3.62	5.05	5.23	4.15	22.6	2.38	1.90	3.70
1969–70	4.54	4.74	6.65	6.07	6.00	21.5	2.42	2.30	2.87
1970–71	4.92	4.78	4.72	6.08	4.42	22.5	2.69	3.08	2.67
1971–72	6.43	8.25	6.95	6.97	8.65	24.0	2.67	3.04	4.25
1972–73	8.80	8.10	6.90	8.30	7.35	27.6	3.16	2.96	3.70
1973–74	8.40	6.90	8.45	9.40	7.80	28.7	3.20	2.48	4.00
1974–75	6.40	6.35	7.25	10.90	6.35	30.5	3.04	2.96	4.30
1975–76							2.74	2.31	4.45
1976–77							3.25	2.68	5.05

Source: Florida Crop and Livestock Reporting Service [3] and Agricultural Statistics-USDA.

The increased utilization of oranges for processed orange products (primarily FCOJ) has led to an increase in the market for oranges over time while still permitting Florida orange growers to realize economical returns. It is reasonable to expect that Florida grower returns would have been considerably lower than present levels without the introduction of FCOJ. However, lower grower returns would not have stimulated large increases in production as has been the case with the introduction of FCOJ. The net effect would be a much smaller scale Florida citrus industry than now exists.

Attempts to determine the effect of increases in the sale of processed grapefruit products on orange grower returns failed to produce statistically significant results. Thus, there does not appear to be a statistically significant relationship between the sale of processed Florida grapefruit products and net returns for Florida orange growers. There is no evidence to suggest that the introduction of processed grapefruit products to Japan would have a negative economic impact on Japanese citrus growers.

ECONOMIC RELATIONSHIPS FOR JAPANESE CITRUS

Although data for the Japanese citrus industry is somewhat limited in nature, attempts were made to develop statistical relationships between crop utilization and weighted average grower prices for Japanese Mikan orange growers. The statistical relationships developed indicate that for a given crop size, the market share of the Mikan orange crop utilized for juice and the market share sold in the fresh domestic market both have positive impacts on grower prices. Moreover, for a given increase, the positive impact on Japanese Mikan grower returns is greater by a factor of 1.67 for processed compared to fresh utilization. The implication of these relationships suggests that for a given crop size, average Mikan grower prices could be increased by increasing the utilization or market share of Mikan oranges in processed juice and decreasing the market share utilized in fresh form by the same amount.

Although the absolute level of grower prices is higher for fresh fruit than for fruit processed into juice, the price sensitivities of the fresh and juice market are such that with a given crop size, diverting a given amount of fruit from the fresh to the processed juice market will increase weighted average grower prices. Since the domestic fresh Mikan market is four times as large as the Mikan juice market, on a volume basis, only a small price change in the fresh market is necessary to affect a large change in weighted average Mikan prices and this grower revenues. This concept is further developed in the appendix.

Considering the experience of the Florida orange industry and the above mentioned statistical relationships developed for the Japanese Mikan orange industry, there are several implications which can be suggested. The Florida orange industry owes its economic viability to the development of processed orange products. Without the development of such products, FCOJ in particular, the Florida orange grower would have experienced drastically lower prices. Product development and market expansion are key components to the viable growth of most agricultural industries, and the Japanese Mikan orange industry should be no exception.

However, it must be realized that the Florida experience is based on oranges with high juice yields which are available for processing at least nine months per year. These and other factors combine to produce a highly efficient and relatively low cost processing industry. Furthermore, U.S. consumers are highly oriented to processed products and have tastes and preferences which are consistent with high consumption levels of processed citrus products. To apply the Florida experience directly to the Japanese situation ignores cultural and consumptive differences.

While direct comparisons between the Florida and Japanese citrus processing industries are difficult due to data limitations, a few general comparisons can be made. In terms of juice yield, the Florida processing industry has averaged .9161 gallons of 58° Brix FCOJ per equivalent 90 pound box of oranges over the past ten seasons. Based on survey data [10] for the 1976 season, the Japanese processing industry averaged .7784 gallons of 58° Brix FCOJ per 90 lbs. of raw fruit. In metric terms, Florida oranges yield 22.45 gallons of 58° FCOJ per metric ton compared to 19.07 gallons for Japanese Mikan oranges.

Estimates of Florida processing costs indicate $112.56 per metric ton of 58° FCOJ in 1975–76 compared to $664.98/metric ton for 58° juice from Japanese Mikan oranges during the 1976 season (297 yen/dollar). On a gallon basis, 1975–76 processing costs in Florida averaged $.5427/gal. 58° Brix FCOJ in drums, while 1976 processing costs in Japan are estimated at $3.21/gal. 58° Brix FCOJ. These data reflect the highly efficient nature of the Florida orange processing industry.

The Florida citrus processing industry operates nearly 9 months each year, while the Japanese Mikan season extends from September through April with 97.4 percent of the fresh Mikans sold in Tokyo wholesale market during the six months of October through March. While the average Japanese processing plant operates 115 days per season, the average Florida processing plant receives fruit approximately 180 days per season and actually operates considerably above this level.

Additional data obtained from a Japanese processing industry survey [10] indicate that as of 1976, Japan had an extracting capacity of 700,000 metric tons of fruit per year with an evaporating capacity of 66,000 metric tons of 58° juice per year. In 1976, the Japanese processing industry operated at approximately 80 percent of extracting capacity and 78 percent of evaporating capacity for Mikan oranges. When Summer oranges (Natso-Mikan) are included, the industry appears to operate at approximately 88 percent of extracting capacity and 82 percent of evaporating capacity. The Mikan concentrate output of the top 10 processing plants totaled 43,955 metric tons in 1976, representing 85.5 percent of total output.

The weakness of grower prices in recent years and the need to utilize a crop thinning program underscore the highly sensitive relationship between crop size and grower prices under the present crop utilization situation. The development and expansion of a pure orange juice market based on the blending of 60 percent Mikan orange juice and 40 percent Florida orange juice appears to represent an excellent opportunity for the Mikan orange industry to fully utilize production and at the same time improve grower returns.

STATISTICAL APPENDIX

The Japanese situation

The Statistical relationship developed for the Japanese situation is based on a general linear regression model as follows:

$$\underset{}{GRWRET} = -294.0778 - \underset{(-2.36)}{0.0387\ CSIZE^*} + \underset{(2.25)}{839.4502 + MSPRC^*} + \underset{(1.39)}{500.0166\ MSFRS}$$

$R^2 = .50$

Where:

GRWRET = Weighted average Mikan grower prices (1,000 yen per metric ton).
CSIZE = Mikan orange production (1,000 metric tons).
MSPRC = Market share sold as processed juice (1,000 metric tons processed ÷ CSIZE).
MSFRS = Market share sold fresh (1000 metric tons fresh ÷ CSIZE).
Figures in parentheses are Students t ratios.
* = Significant at the 95 percent probability level.

Table A–1 illustrates the estimated increase in grower revenues resulting from diverting 1 percent of the fruit sold in the fresh market to the processed juice market. The calculations illustrate the high level of price sensitivity of the fresh market to changes in quantity sold. The values presented in the tables are based on calculations of price flexibilities. The results are dependent on the assumptions of (a) a given crop size; (b) the quantity of fruit diverted from the fresh market must equal the amount diverted to the processed juice market; and (c) the amount diverted to the processed market must be greater than zero.

TABLE A.1.—ESTIMATED INCREASE IN REVENUES RESULTING FROM A DIVERSION OF 1 PERCENT OF FRESH FRUIT TO PROCESSED PRODUCTS [1]

Year	Fresh (1,000 metric tons)	Diversion (1,000 metric tons)	Change in average price (1,000 yen per metric ton)	Change in total revenue (million yen)
1965–66	1,077.0	10.77	2.75	3,655.70
1966–67	1,412.0	14,12	2.74	4,792.80
1967–68	1,309.0	13.90	2.77	4,443.18
1968–69	2,000.2	20.00	2.89	6,789.34
1969–70	1,677.7	16.78	2.79	5,694.67
1970–71	2,167.2	21.67	2.88	7,356.19
1971–72	2,125.2	21.25	2,90	7,213.63
1972–73	2,945.3	29.45	2.80	9,997.33
1973–74	2,698.0	26.98	2.70	9,157.91
1974–75	2,838.9	28.39	2.85	9,636.17
1975–76	2,880.5	28.80	2.67	9,777.38
1976–77	2,260.6	22.61	2.48	7,673.23

[1] Calculated from the following formulas:
1. Change in average price = amount diverted from fresh to processed (1,000 metric tons)* 339.4336/crop size.
2. Change in total revenue = average price * crop size

3. $$\frac{\partial(\text{average price})}{\partial q_p} - \frac{\partial(\text{average price})}{\partial q_f} = 339.4336$$

4. Assuming (i) crop size given; (ii) $\Delta q_p = -\Delta q_f$; (iii) $\Delta q_p > 0$

Source: Calculated by Dr. Jonq-Ying Lee, Economic Research Department, FDOC.

REFERENCES

[1] Florida Canners Association, *Annual Statistical Summaries*, Winter Haven, Florida.

[2] Florida Citrus Mutual, *Annual Statistical Reports*, Lakeland, Florida.

[3] Florida Crop and Livestock Reporting Service, *Florida Agricultural Statistics: Annual Citrus Summaries*, Orlando, Florida.

[4] Foreign Agricultural Service—USDA, Fruit and Vegetable Division—FCA, *Citrus in Japan: Area, Production, Trade*, Washington, D.C., March, 1978.

[5] Foreign Agricultural Service-USDA, Report from Tokyo Agricultural Attache, *Japan: Annual Citrus Fruits Report*, October 25, 1977.

[6] Foreign Agricultural Service—USDA, Report from Tokyo Agricultural Attache, *Japan: Agricultural Situation*, January 23, 1978.

[7] Hooks, R. Clegg, and Richard L. Kilmer, *Estimated Costs of Processing, Warehousing and Selling Florida Citrus Products, 1975-76*, Economic Information Report 78, Food and Resource Economics Department, University of Florida, Gainesville, Florida, July, 1977.

[8] Kitagawa, Hirotooshi, "Japan as a Market for Florida Citrus Fruit", unpublished paper presented at the Lake Alfred Area Research and Education Center, University of Florida, undated.

[9] Wolf, Jurgen, *Medium-Term Prospects for World Citrus Production*, FAO, Rome, presented to the International Citrus Conference, Orlando, Florida, May, 1977.

[10] Yomiko-D.D.F., "Survey of Japanese Citrus Industry Sources", March 31, 1978.

CONGRESSIONAL RESEARCH SERVICE,
THE LIBRARY OF CONGRESS,
Washington, D.C., July 8, 1981.

To: Congressman Fred Richmond, Joint Economic Committee.
From: Elizabeth Withnell, analyst, Food and Agricultural Section, ENRPD.
Subject: Comparison of the costs of producing livestock in Japan and the United States.

The enclosed tables are being forwarded in response to your request for data comparing the costs of producing livestock in Japan and in the United States and for the cost of meat in each country.

You need to view the material with the following caveat: the figures for the cost of producing livestock are estimates and should be used to impart a sense of the relative costs of livestock production in each nation, rather than the absolute cost of such production. This is true because the various factors which go into each country's cost accounting process vary, resulting in figures that are not necessarily analogous. In fact, the direct costs of producing livestock in each nation are probably more closely comparable than the direct and indirect costs because of the variance in the items which make up indirect costs.

COST COMPARISONS OF PRODUCING LIVESTOCK—UNITED STATES AND JAPAN (Per Head Basis) [1]

	Japan		United States	
	1978	1979	1978	1979
Fed cattle:				
Direct costs	$2,510	$2,420	$565	$775
Direct and indirect costs	2,600	2,510	590	790
Feeder cattle:				
Direct costs	1,570	1,560	150	170
Direct and indirect costs	1,780	1,780	300	380

[1] Assumes a live weight of 1,200 lb which is slightly lighter than Japanese cattle and heavier than United States cattle.

Source: U.S. Congress. Senate Committee on Agriculture, Nutrition and Forestry "Cost of Producing Livestock in the United States," various years and Japanese Ministry of Agriculture, Forestry and Fisheries. "Statistical Yearbook," 1978–79 and 1979–80.

COMPARISON OF MEAT PRODUCTION AND RETAIL COSTS: UNITED STATES AND JAPAN

	Japan			United States		
	1978	1979	1980	1978	1979	1980
Beef and veal production (metric tons)	402.6	401.6	402	13,825.2	12,355	12,424.3
Retail cost sirloin steak (per pound) [1]	$15.91	$15.78	$17.27	$3.03	$3.20	$3.95

[1] The retail meat prices are as of November of each year.

Sources: U.S. Department of Agriculture. "Foreign Agriculture Circular: Livestock and Meat" February 1981; and "Foreign Agriculture," December 1978, 1979 and 1980.

O