2/22/71

Called Crolius - CWC has read your proposed letter to Flanigan. Thinks it is good - you should send it. But the man who will actually be handling it is Peter Peterson - who is coming aboard soon. Write to Peterson with cc: Fl, Kissinger, Stans and CWC. CWC will try to follow up on it from here in the WH.

Crolius said thanks, he will do the above.

C

2/9/71

Chuck Thanks

Ted

THEODORE F. T CROLIUS

SHARON, PIERSON AND SEMMES
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CANAL SQUARE
1054 THIRTY-FIRST STREET, N.W.
WASHINGTON, D.C. 20007

11 file

The Honorable Peter M. Flanigan
Executive Office of the President
Washington, D. C. 20500

Re: Unfair Foreign Competition in EHV
Electrical Transmission Equipment

Dear Mr. Flanigan:

In view of your responsibility for determining U. S. trade policy on behalf of the President, I am writing you with respect to a critical trade and technology problem which confronts this country. I appreciate that this matter has been considered generally by White House personnel, but I feel that it is of sufficient consequence to warrant restatement to you.

It is my hope that the matters outlined in the letter will encourage your interest in the issue and in its possible solution.

As you know, the United States, with 6% of the world's population, produces and uses 36% of the world's electric energy. Historically, the use of electric power in the U. S. has doubled every ten years, and the Federal Power Commission predicts this trend will continue.

The abundance of economical, reliable and flexible electric energy has been fundamental to this nation's economic strength, industrial productivity, quality of life and defense capability, and promises to be of still greater importance in the future.

These huge amounts of power require elaborate transmission grids which are the backbone of our national bulk power system.

The ability of U. S. producers to develop and produce the higher-rated and technologically advanced equipment necessary for this growing system is now being seriously undermined. This is the consequence of the situation which is summarized below.

With limited exception, the foreign industrialized nations restrict procurement of electrical power transmission equipment for use on their electric power systems to domestically produced equipment. Such restrictive procurement policies are applicable to the whole range of electrical generation, transmission and distribution equipment, but for present purposes this memorandum is directed to extra high voltage (EHV) transmission equipment (power transformers and power circuit breakers) 1/ where the clear and present danger to U. S. production and the technology base is the most acute, and where the adverse effects upon the national interest appear to be the most immediate.

By contrast, the U.S. market for power transmission equipment is open: Federal power agencies (TVA, the Bonneville Power Administration, and the Bureau of Reclamation) can procure from foreign suppliers, and do so in substantial quantity, subject only to the Buy-American differential; private U. S. electric utilities increasingly source from foreign suppliers, particularly such large utilities as Consolidated Edison, American Electric Power, Detroit Edison, and Consumers Power; certain municipal utilities are heavy purchasers of foreign equipment, the

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1/ EHV transmission systems in the U.S. are rated at 345,000 volts (345 KV); 500 KV; and 765 KV. The transformers and circuit breakers required for these systems constitute the largest and most complex transmission equipment in the world today.

City of Los Angeles being a notable example.

This substantial, and accelerating, penetration of the U.S. market by foreign suppliers appears to be principally the product of special export incentives plus protected home markets and an export strategy of dual pricing from such markets. Insulated from outside competition, foreign manufacturers receive - directly or indirectly - high or "full" prices from their home market electric utilities, most of which are government-owned or controlled, and all of which are strongly influenced by government planning and national economic policy. Assured of a good return from sales in their protected home markets, foreign manufacturers are enabled to sell excess capacity into the large, open U.S. market at incremental prices which undercut U.S. bidders by 20% to 35% and which usually are significantly lower than prices for equivalent equipment in their own home markets.

While thus pricing on an opportunistic basis, foreign manufacturers design and build EHV transmission equipment at voltage ratings which are higher than can be used on their own national power systems and which are applicable only to the higher-rated U.S. and Canadian power grids. Sometimes their national governments actively support such U.S. - Canada targeting. [2/]

2/ The French government, for example, will advance up to 50% of development costs for a new product with commercial potential, repayable only if the developed product is profitable. This program, as cited by Pierre Aigrain, Director General of the Recherche Scientifique et Technique in Paris, at the National Academy of Engineering in Washington in 1968 "made it possible to develop a 765 kilovolt circuit breaker for high voltage transmission lines

(2/ continued)

The U.S. market for EHV transmission equipment is singularly susceptible to an export strategy based on selective incremental pricing. An EHV power transformer or power circuit breaker is a big-dollar, "custom" sale. The foreign manufacturer incurs minimum American overhead for marketing, inventory and distribution, yet a single sale of a large power transformer in the U.S. market can run to over $1,000,000; a single 500 KV circuit breaker can run to $200,000. Any individual foreign supplier need not, and frequently does not, compete on a continuing basis in the U.S. Moreover, the diverse structure of the U.S. electric utility market has proved ideal for such pricing strategy: Foreign suppliers first concentrated — and continue to concentrate — on the large, prestigious Federal power agencies, such as TVA, that buy pursuant to criteria which in the circumstances here involved place undue emphasis on price alone. Having established strong positions at the Federal power agencies, the next move by foreign suppliers has been into the EHV systems of other large U.S. utilities, such as American Electric Power. The purchasing policies of the Federal power agencies have set the procurement pattern, and many large privately-owned utilities are following it. Thus the principal members of the U.S. electric utility industry, public and private, are encompassed

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(2/ Continued)

by a company in Grenoble. It turns out there is no market for a 765 kilovolt circuit breaker in France, and even in Western Europe at the present time, because of the general size of transmission lines, and because of the very concentrated nature of Europe, we don't have yet to resort to these extremely high voltages for high power transmission. So all sales of that circuit breaker have been to Canada, the United States, and the USSR. Not a single one has ever been sold in France, and probably none will be sold in France for some time to come."

by the foreign strategy.

The foregoing export strategy, carried on over the last seven years at an intensifying pace by an increasing number of foreign participants, has proved enormously successful. So successful, in fact, that with respect to certain U.S. power agencies and certain voltage ratings the U.S. competition has been nearly eliminated. The plain fact is that American manufacturers have not been able to meet this type of price competition by their foreign counterparts.

- In 1967, 1968 and 1969 the Federal power agencies purchased 100% of their EHV power transformers from foreign suppliers. The preliminary figure for 1970 is "down" to 65% foreign — a four year average of 90% foreign.

- For the same four-year period, the Federal power agencies purchased 62% of their EHV power circuit breakers from foreign suppliers.

- Total U.S. utility purchases (Federal and private) of foreign-made EHV power transformers were 14.8% in 1964. In 1970 it is estimated to be 28.1%.

- Total U.S. utility purchases of foreign-made EHV power circuit breakers were 21.9% in 1964, and in 1970 it is estimated to be 33.5%. Even more significantly, 24 out of 25 circuit breakers applied to U.S. 765 KV lines, the highest level of commercial transmission in use in the world today, were placed with a French supplier.

- Despite rising costs of production over the past five years, prices for EHV transmission equipment have been steadily driven down from their 1964-1965 levels to the point where at least one U.S. supplier, and probably others, must compete with no reasonable expectation of profit.

- Foreign suppliers of transmission equipment are now effectively competing in the U.S. at the lower (non-EHV) voltages. Should this "filter down" technique be successful, the balance of the U.S. transmission equipment industry is threatened.

There is one central economic fact here. Foreign penetration of the U.S. EHV transmission market has not been the result of more efficient or more technologically-dynamic competition. Foreign suppliers are not winning this battle on the merits — superior design, lower production costs, heavier capital investment or other engineering-manufacture-marketing efficiencies.[3/] The U.S. power transmission industry is modern and aggressive, capable of and anxious to compete anywhere in the world with foreign manufacturers — including especially the profitable protected home markets. Indeed, it is precisely in high-technology products that U. S. producers have consistently won international recognition. But, unless and until the competitive ground rules for transmission equipment are fair and even-handed, based on reciprocal access and reciprocal commitment to expanded liberalized trade, U.S. producers are necessarily in a defensive, and ultimately losing, competitive struggle. By themselves they cannot overcome the national economic policies of industrial Europe which restrict outside competition, "rationalize" the production and purchase of equipment for their domestic electric power systems, and, by various tax and other financing and credit incentives, actively sponsor export of capacity to the U.S. and third country markets.

Even if it were to be assumed that our trading-partner countries and their

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3/ In its November 1970 testimony before the Tariff Commission, the Power Transmission Division of General Electric Company submitted statistics which show that, if anything, the U.S. power transformer and power circuit breaker industries are more efficient in terms of cost of material, unit labor cost, and indirect (overhead) cost.

heavy equipment producers were operating within fair and economic standards, a valid question as to the status of the national interest and security is raised by the very high level of foreign equipment on U.S. transmission systems.

At stake is technological capability — and all the economic-industrial-security consequences that flow therefrom. 765 KV transmission seems a very high achievement today. And so it is. Precisely for this reason it should be of concern that, at this highest point yet reached, foreign manufacturers appear to enjoy technological parity with U.S. manufacturers in EHV, thanks in large part to the heavy orders they have taken in the U.S. In the economics of this industry such orders pay for the development of the next generation of EHV equipment.

Present EHV ratings are only the threshold. To meet the enormous energy requirements of the next 20 years U.S. transmission systems must move to 1000 KV and 1500 KV and perhaps higher. To get there will require constant redesign and engineering breakthroughs at every level of research and development. And design and engineering capability require a production base adequate to sustain further technological advance. For the U.S. manufacturer that production base in EHV has already been significantly eroded.

The U.S. transmission industry can validly ask whether the contest is so weighted against it for the long term that it cannot reasonably expect to survive. It may be significant in that connection that the April 1970 forecast of future additions to U.S. electrical manufacturing capacity, sponsored by Edison Electric Institute, shows no planned increases by U.S. manufacturers for additional production capacity for EHV equipment — this despite the projection of doubled demand for EHV transmission in this country in the next ten years.

It should be emphasized that this clear and present danger to the U.S. power transmission industry does not come as a sudden surprise in 1970. The ingredients of foreign competition — protected home markets, dual pricing, and export aids and incentives — have been set forth and documented in full many times:

1964: Trade Information Committee hearings in preparation for Kennedy Round tariff negotiations (testimony of National Electrical Manufacturers Association (NEMA) and General Electric Company).

1965: NEMA presentation to Congressional members who have heavy electrical equipment plants in their districts and states.

1966: General Electric testimony before the Trade Information Committee with respect to foreign government nationalistic procurement practices and their applicability to the proposed international agreement on antidumping procedures.

1967: NEMA sponsorship of a study of discriminatory pricing in the U.S. by British manufacturers of power transformers. (See monograph, "The British Power Transformer Industry and Its Excursions into the United States Market," DePodwin and Epstein, N.Y.U., Institute of Finance, 1969.)

1968 Trade Information Committee hearings on international competition (testimony of NEMA and General Electric).

Ways and Means Committee hearings on the Trade Act of 1968 (statements of NEMA and General Electric).

Participation by NEMA in a U.S. Government initiative in the OECD to draft uniform international procedures for government procurement of heavy electrical equipment. (The Trade Committee of the OECD has taken negligible action on the U.S. proposal for two years now. No action is, in effect, favorable action on behalf of the interests of foreign suppliers and their governments.)

1969: Ambassador Roth's Trade Report to the President. 4/

1970: Ways and Means Committee and Senate Finance Committee hearings on the Trade Act of 1970 (statements of NEMA and General Electric). 5/

1970: Tariff Commission hearings on international competition (testimony of Westinghouse and Power Transmission Division of General Electric).

4/ The Roth report said, in part: "In the United States, government procurement for use in the United States is governed by the Buy-American Act and implementing regulations. The margin of preference is a clearly stated percentage difference between foreign and domestic bids. Except for certain contracts involving goods and services essential to the national security, foreign suppliers are regularly afforded a clear opportunity to bid on government projects and are awarded contracts on the basis of their bids. In most other countries, by contrast, government procurement is usually carried out under a very high degree of administrative discretion, unquestionably favoring domestic suppliers even where there are published standards and procedures. As a result, U. S. and other foreign suppliers frequently have no established means of competing for contracts or sometimes even of learning of the existence of a government project. Moreover, some foreign governments consistently invite bids only from domestic firms and this excludes foreign suppliers entirely. <u>This is especially true in the field of heavy electrical equipment.</u>" (Emphasis added.)

5/ Chairman Wilbur Mills, in his floor statement of November 18, 1970, explaining the Trade Act, said in part: "Testimony received by the Committee on Ways and Means indicates that most nationalized industries and Government-controlled utilities of other industrial nations procure their equipment almost exclusively from their own respective domestic sources. The most notable example of such buy-national procurement policies and practices involves large electrical equipment -- turbine generators, power transformers, and power circuit breakers which are the backbone of electrical power systems. Such exclusionary practices by foreign governments effectively prevent U. S. -made products from competing in those foreign markets. At the same time, industries in these countries, secure in their insulated home markets, are free to enter the U. S. market. They are even encouraged by Federal procurement policy to sell to nonmilitary Federal Government agencies in the United States, subject only to the modest, and clearly stated, Buy American Act differential. Such practices not only involve hundreds of millions of dollars of high-technology products essential to this country's electrical energy systems, they result in one-way trade antithetical to the basic idea of reciprocity in foreign trade relations. U. S. manufacturers of such equipment should be permitted to compete in such foreign markets in the same manner as foreign manufacturers are permitted to compete here."

In addition to the above listed appearance and presentations, individual members of the industry and representatives of NEMA have met frequently with government trade and procurement officials with respect to closed foreign markets and dual pricing of EHV transmission equipment into this country.

The foregoing activities reflect the domestic industry's awareness that it has a continuing responsibility for making cognizant government authority aware of the problem and to encourage remedial action.

To this same end individual members of the industry have also pursued self-help measures.

At the November 1970 Tariff Commission hearings on international competition, Commission members asked both the Westinghouse and General Electric witnesses about available statutory remedies for the unfair competition described, whether such remedies were effective to meet the problem, and, if so, whether they were being invoked. Westinghouse stated that it has filed a dumping complaint with the Customs Bureau covering large power transformers (10,000 KVA and up) being imported into the U.S. from six foreign countries. General Electric stated that it is investigating the possibility of a dumping complaint covering power circuit breakers, and, moreover, that the Company has previously met with Treasury Department officials to discuss possible countervailing duty actions. These witnesses also concurred in suggestions as to the possible need for amendment, or at least reinterpretation, of the antidumping and countervailing duty statutes, and also Section 337 of the Tariff Act of 1930 (unfair methods of competition in import trade).

Consistent with their conviction that the long-term solution to this problem lies in international commitment to open world markets for electrical equipment, NEMA and General Electric in their statements to the House Ways and Means and Senate Finance Committees in 1970 strongly supported the Administration's proposed amendment of Section 252 of the Trade Expansion Act of 1962 to broaden the President's authority to move against unjustifiable and unreasonable foreign import restrictions which burden U.S. commerce.

Meanwhile, however, and in any event, the U.S. must protect its stake in electrical manufacturing and technological capability.

The purpose of this memorandum is to request that the Executive Office of the President exercise its ultimate responsibility and authority for U.S. trade and procurement policy on the basis of the merits of the circumstance outlined above. We believe that careful consideration by the Executive Office of the circumstances in the light of the national interest and in application of already established national trade policy will cause Presidential authority to be invoked in support of remedial steps. There are available to the Executive Office ready instruments which lend themselves to promotion of the balanced national interest in this case. For example, the Federal power agencies can be directed under their enabling legislation or the discretionary provision of Executive Order 10582 to cease procurement of foreign-made EHV equipment until fair international trade in this equipment is established and the domestic technology base in such equipment is no longer endangered. The agencies are reluctant to exercise this authority on their own.

Further, a change in procurement practices adopted on behalf of underlying U.S. interests in technology and international trade involves a policy determination appropriate for the Executive Office level.

We do not mean by this specific suggestion to imply that this is the only device, or the necessary device, to promote the ultimate objectives of free and open international trade and of preserving the national technology resource, but we believe that such an action in the present circumstances recommends itself as an especially effective instrument on a number of fronts. In particular, it will signal to our trading partners the need for each of them to re-examine the basis on which they engage in international trade. In this connection, General Electric strongly supported, and will continue to support, that part of the Trade Act of 1970 which would amend Section 252 of the Trade Expansion Act to broaden the President's authority to move against foreign import restrictions.

I would welcome the opportunity to discuss this matter further at your earliest convenience.

Sincerely yours,

Robert B. Ames
Vice-President and General Manager
Power Transmission Division
General Electric Company

THE NEW YORK TIMES

November 20, 1969

GATT Chief Lauds Nixon's Trade Bill; Heavy Soviet Buying of Steel Reported

Long Urges Members to Tackle Non-Tariff Barriers Quickly

By GERD WILCKE

Olivier Long, the director general of the General Agreement on Tariffs and Trade, told American business leaders yesterday that President Nixon's trade bill was the "best news I have received since assuming my post 18 months ago."

At the same time, the Swiss-born executive urged that members of GATT move quickly to tackle the problem of non-profit barriers.

Noting that GATT had compiled an inventory of 800 such barriers hampering trade among nations, Mr. Long implied that abolition of the American selling price system of assessing duties on certain chemicals would greatly facilitate the removal of non-tariff barriers.

President Nixon, in his trade message Tuesday called for the removal of the system, which bases duties on the prices of comparable American products, rather than on the imports.

Addresses Trade Council

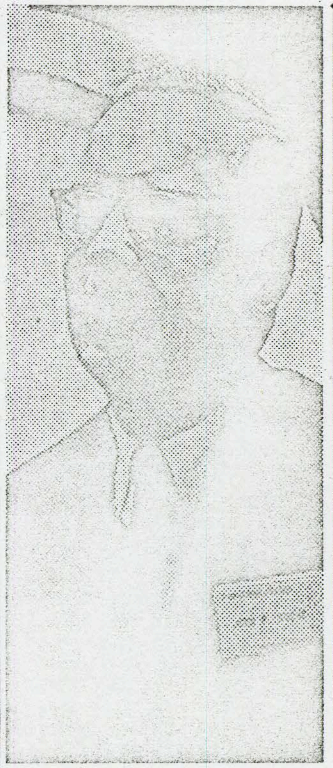
Mr. Long, addressing the 56th National Foreign Trade Convention at the Waldorf-Astoria Hotel, also urged nations of the free world to prepare to negotiate a new round of tariff and trade liberalizations by the end of 1972.

The sentiment among delegates to the 3-day convention was clearly in favor of Mr. Nixon's trade bill.

Ambassador Carl J. Gilbert, the President's Special Representative for Trade Negotiations, urged the business leaders to support passage of the bill "without crippling amendments."

In its annual policy declara-

Continued on Page 71, Column 4



The New York Times

John P. Roche

Spokesman for the U.S. Industry Cites Signs Found in Europe

By ROBERT WALKER

A spokesman for the American steel industry reported yesterday that the Soviet Union had been importing massive quantities of steel since the middle of this year and was expected to continue this foreign buying into the middle of 1970.

Putting together data and observations from recent visits to the Soviet Union and Western Europe, John P. Roche, president of the American Iron and Steel Institute, emphasized in an interview here that figures on Soviet imports and consumption of steel could only be approximations. But he said the pattern of heavy buying, mainly from Western European steel mills, had been unmistakable.

Protection Sought

This Soviet demand would have great significance for the American industry because it would go a long way toward explaining the reduced pressure from imports on the United States market this year.

As the full-time head of the American steel producers' principal trade association, Mr. Roche speaks for an industry that has been campaigning hard for protection against im-

Continued on Page 71, Column 1

DIRECTOR OF GATT LAUDS TRADE BILL

Continued From Page 69

tion, the 600-member council welcomed the bill and "its expression of a continuing commitment to a liberal trade policy for the United States."

Tax Review Is Set

Answering widespread complaints from traders about the way they are taxed, Edwin S. Cohen, Assistant Secretary of the Treasury for Tax Policy, said the Treasury believed the time had come "to review our system of taxation of foreign-source income in the light of changes in the nature of international business activites, including the growing conduct of such business through the multinational corporation."

He continued: "It seems to me that we should not force our exporters to use foreign corporations to minimize their tax. Therefore, we have been examining the possibility of extending to a domestically incorporated international sales corporation the same privileges now accorded foreign corporations, which qualify under the existing Export Trade Corporation or other exceptions."

Change in Bill Favored

Mr. Cohen also said the Treasury would like to see one provision deleted from the Senate Finance Committee's version of the tax-reform bill. The section would reduce Americans' tax exclusion for income earned abroad to $6,000 a year from $20,000.

In its lengthy policy declaration, the council opposed protectionist or "orderly marketing" quota measures and endorsed generalized tariff preferences for the product of developing countries.

On East-West trade, the council endorsed the relaxation of restrictions and simplification of regulatory procedures on export sales of nonstrategic goods and services.

Calling for the exemption of bank export credits from Federal Reserve ceilings on overseas financing, the declaration stated: "The expansion of exports is dependent upon the expansion of adequate and competitive export financing, the removal of restrictions and the adoption of a meaningful tax incentive."

In this context, as it did in previous years, the declaration asked for the termination of foreign investment curbs "at the earliest date."

RUSSIANS BUYING EUROPEAN STEEL

Continued From Page 69

ports. He said that the relief provided by the Soviet demand probably could not be expected to last much beyond the third quarter of next year

Shipments of foreign steel into the United States last year soared to a record of nearly 18 million tons with a value of nearly $2-billion. In the first nine months of this year, imported tonnage was down from the 1968 pace by 22 per cent. The dollar value off only 12 per cent, however, because the imports tended to be the more expensive grade.

The explanation given earlier for reductions had generally been the buoyant economic activity in Western Europe and Japan. However, Mr. Roche said that Soviet steel officials admitted to him that they "could use" 150 million tons of raw steel production this year, while they expected to pour only about 123 million tons.

Impressive Tonnage

Even this tonnage would be impressive. Mills in the United States, which are having an excellent year, expect to pour about 140 million tons in all of 1969.

The Russians apparently are working rapidly to raise their steel-making capacity. Mr Roche saw uniformed Soviet troops being used as construction workers on new production facilities. At the time, he was told that the construction work was a routine part of military training, but Western European sources told him later that such an explanation seemed highly dubious.

Mr Roche said the Russians apparently were importing a broad variety of finished-steel items, including flat-rolled products, pipe and reinforcing bars.

He observed that the reinforcing bars—known in the trade as "rebars"—would be used extensively in the construction of concrete fortifications. He added that the spurt in Soviet steel demand might be related to recent friction with China. He said the imports of flat items—such as cold-rolled sheet and strip—might be related to the needs of a Fiat automotive plant that was built recently near Moscow.

The quality demands are high in these cold-rolled products—used for automobile doors, fenders and the like—and Mr. Roche observed that Soviet cold-rolled steel had in the past been rejected as substandard when attempts were made to export it to Western European auto manufacturers.

He said the demand for pipe might be explained by recent, extensive discoveries of natural gas in the Soviet Union.

Mr Roche was puzzled at one Soviet mill, where he saw steel slabs from a continuous-casting machine that were addressed for shipment to Japan, that is, apparently ready for sale to the world's most aggressive steel exporter

However, Western Europeans explained that this steel would be rolled into pipe in Japan—an operation for which Soviet capacity was insufficient—then shipped right back to the Russians.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

November 17, 1969

TO FILE:

RE: American Footwear Manufacturers Association

FROM: C. W. Colson CWC

CWC spoke with Haldeman and General Haig. Haig was given the action on this by Haldeman.

Haig assured me that Sato would make some announcement which would across-the-board ease the concerns of various industries with respect to Japanese imports.

It is anticipated that this will be part of whatever joint statement is issued by Sato and the President. I do not have a specific assurance on Footwear but I understand that the entire range of trade topics will be discussed.

I have quietly communicated this to Shannon this date.

Note: Dec. 1 The entire Trade Issue was raised between President Nixon and Prime Minister Sato affecting all concerned groups

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

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MEMORANDUM

THE WHITE HOUSE

WASHINGTON

November 15, 1969

ADMINISTRATIVELY CONFIDENTIAL

FOR: H. R Haldeman

FROM: C W. Colson

SUBJECT: President's Trade Message and Prime Minister's Sato's Visit

As you know, I have been assigned the task of contacting outside groups in connection with the proposed trade message by the President scheduled for delivery next week.

I have contacted all the free trade organizations. The public relations apparatus is in place to commend the President and to generate public support for his position.

I have also been quietly meeting with people involved in so-called "protectionist" groups. I have limited my contacts to known friends, either of mine or of the administration. I think in some cases I have been successful in calming their fears with respect to the proposed trade bill. In fact, the only industry that has reason to react strongly will be the chemical industry, which has enjoyed the protection of the American Selling Price over the years.

The other two industry groups which might be expected to provide vocal and powerful opposition to the President's position are textiles and footwear. As to the first, we are apparently on the verge of beginning international negotiations for voluntary restrictions as to woolen and synthetics similar to what was done with the cotton industry in 1962. The Japanese have apparently agreed and, if this happens, there will be a major breakthrough, very significant politically.

As to the footwear industry we can expect the same kind of powerful political opposition that we have had from the textile industry heretofore It may even be intensified in view of the fact that we appear to be now settling the textile problem.

. . .

Based on my conversations with counsel for the American Footwear Manufacturers Association, I am convinced that we can, for the time being at least, win them over politically on the trade issue if we give them any encouragement that the President is beginning to take steps to seek the same kind of voluntary agreement for shoes that we have achieved for textiles. Once again, Japan is the principal offending nation.

I suggest, therefore, that we propose to the President that he at least allude to the shoe problem when he meets with Prime Minister Sato. As you know, Senator Margaret Chase Smith, other members of the Senate and four members of the House Ways and Means Committee met with the President two weeks ago to present their case The President was reported to have said that he regarded the shoe problem to be as serious as the textile problem. I have not been able to obtain economic data but I do believe that this is the case.

Certainly from a political standpoint, it is very nearly as potent an issue.

I discussed this with Mr. Bergstrom of Henry Kissinger's staff because he has worked on the trade bill and the textile problem He feels that if the President were to make any mention of the shoe problem to Prime Minister Sato that it would totally undermine the negotiations that are to begin on textiles. Of course, the nature of his work forces him to be unconcerned about domestic political considerations, or at least to subordinate them. Harry Dent feels as I do that it is extremely important that some reference be made to other problems, including footwear, at next Wednesday's meeting.

Harry suggested that I talk with Stanley Nehmer, Deputy Assistant Secretary of Commerce, which I have done Nehmer feels that if it is properly handled the President can mention footwear without seriously affecting the textile situation. Nehmer feels, however, that it must be done with extreme care.

My relationship with the footwear manufacturers is such that if I can quietly and unofficially communicate the fact that the footwear problem has been mentioned, I can buy us several months in which to work on the problem. Harry Dent says that it can be critically important on the Hill if he is able to say that the President has mentioned footwear to Sato. There would be no public announcement and indeed there should not be We can get just as much good with private assurances

...

If we are not able to say this, particularly in view of the textile announcement yesterday, the footwear manufacturers will intensify their pressures in Congress and we might very well see a rider attached to a major bill as the Congress nears adjournment, which rider would be exceedingly rigid.

An additional consideration is that at some point over the next several months, domestic political considerations will make it mandatory that something be done about the footwear problem and this is going to involve the Japanese Therefore, there is an additional reason to mention this to Sato because if the President does not, it will be that much more difficult to reopen the question later.

The way in which it is raised by the President is all-important. I would suggest that the President advise the Prime Minister that there are major protectionist pressures in this country and in the Congress, and that the administration may or may not be able to contain them; that the protectionist pressures will involve, among other things, footwear and that what the President hopes can be avoided is restrictive legislation in the Congress. The President could point out that it obviously would be better for this to be discussed privately between the governments rather than to become a political decision made by the Congress and beyond our control. The President can say that he hopes this will not be necessary but he is simply mentioning it at this time so that the Prime Minister is aware of the political problems here.

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