DISPOSAL OF VARIOUS METALS FROM CURRENT STOCKPILES

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL STOCKPILE AND NAVAL PETROLEUM RESERVES

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 3344

AUTHORIZE THE DISPOSAL OF SILVER FROM THE NATIONAL STOCKPILE

S. 3345

AUTHORIZE THE DISPOSAL OF TIN FROM THE NATIONAL STOCKPILE AND THE SUPPLEMENTAL STOCKPILE

S. 3346

TO AUTHORIZE THE DISPOSAL OF ANTIMONY FROM THE NATIONAL STOCKPILE AND THE SUPPLEMENTAL STOCKPILE

S. 3347

TO AUTHORIZE THE DISPOSAL OF INDUSTRIAL DIAMOND STONES FROM THE NATIONAL STOCKPILE AND THE SUPPLEMENTAL STOCKPILE

AUGUST 25, 1976

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WEDNESDAY, AUGUST 25, 1976

U.S. SENATE,
SUBCOMMITTEE ON NATIONAL STOCKPILE
AND NAVAL PETROLEUM RESERVES OF THE
COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to notice, in room 212, Russell Senate Office Building, Hon. Howard W. Cannon (chairman) presiding.

Present: Senator Cannon.

Also present James C. Smith, John A. Goldsmith, George F. Travers, professional staff members; Jeanie Killgore, clerical assistant; Frank Krebs, assistant to Senator Cannon; and Ron Lehman, assistant to Senator Scott.

OPENING STATEMENT BY THE CHAIRMAN

The Subcommittee on National Stockpile and Naval Petroleum Reserves is meeting this morning to receive testimony on four bills, S. 3344, 3345, 3346, and 3347, all of which would authorize the disposal of various metals from current stockpiles. The materials in question are silver, tin, antimony, and industrial diamonds.

[The bills follow:]

[S. 3344, 94th Cong., 2d sess.]

A BILL To authorize the disposal of silver from the national stockpile

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hreby authorized to dispose of, by negotiation or otherwise, approximately one hundred and eighteen million troy ounces of silver now held in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98–98h). Such disposition may be made without regard to the requirements of section 3 of the Strategic and Critical Materials Stock Piling Act: *Provided*, That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processor, and consumers against avoidable disruption of their usual markets.

[S. 3345, 94th Cong., 2d sess.]

A BILL To authorize the disposal of tin from the national stockpile and the supplemental stockpile

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hreby authorized to dispose of, by negotiation or otherwise, approximately twenty-eight thousand long tons of tin now held in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98–

98h and the supplemental stockpile established pursuant to section 104(b) of the Agricultural Trade Development and Assistance Act of 1954 (68 Stat. 456, as amended by 73 Stat. 607). Such disposition may be made without regard to the requirements of section 3 of the Strategic and Critical Materials Stock Piling Act: *Provided*, That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets.

[S. 3346, 94th Cong., 2d sess.]

A BILL To authorize the disposal of antimony from the national stockpile and the supplemental stockpile

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hereby authorized to dispose of, by negotiation or otherwise, approximately ten thousand short tons of antimony now held in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98–98h) and the supplemental stockpile established pursuant to section 104(b) of the Agricultural Trade Development and Assistance Act of 1954 (68 Stat. 456, as amended by 73 Stat. 607). Such disposition may be made without regard to the requirements of section 3 of the Strategic and Critical Materials Stock Piling Act: *Provided*, That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets.

[S. 3347, 94th Cong., 2d sess.]

A BILL To authorize the disposal of industrial diamond stones from the national stockpile and the supplemental stockpile

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Administrator of General Services is hereby authorized to dispose of, by negotiation or otherwise, approximately eight million five hundred thousand carats of industrial diamond stones now held in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98–98h) and the supplemental stockpile established pursuant to section 104(b) of the Agricultural Trade Development and Assistance Act of 1954 (68 Stat. 456, as amended by 73 Stat. 607). Such disposition may be made without regard to the requirements of section 3 of the Strategic and Critical Materials Stock Piling Act: *Provided*, That the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets.

Senator CANNON. If these disposals are authorized by Congress, sales of these four materials are estimated to generate $745 million in revenue during fiscal year 1977.

The Administration's budget for 1977 assumed that this disposal authority would be granted by Congress and reduce its outlay requirement in the defense budget accordingly. Therefore, it behooves us to act on this legislation and, if warranted, to grant this disposal authority to hold down defense outlays in accordance with the budget resolution.

On the other hand, the stockpile law has been carefully written to require congressional authorization to dispose of any stockpile material and each of these proposals must be examined for its impact on national defense and the consequences of disposal on the current commodity market.

We have several industry witnesses scheduled to testify first.

After we have heard from the industry witnesses, General Bray, the Director of the Federal Preparedness Agency in GSA, will testify for the Administration on these bills and he is prepared to go into executive session to discuss with the committee the current stockpile policy

study which will significantly influence future stockpile legislative proposals.

We will take up the bills in the order introduced, silver, tin, antimony, and diamonds.

Our first witness is Mr. Walter Frankland from the Silver Users Association.

Mr. Frankland.

STATEMENT OF WALTER L. FRANKLAND, JR., EXECUTIVE VICE PRESIDENT, SILVER USERS ASSOCIATION, INC.

Mr. FRANKLAND. Mr. Chairman, I am Walter L. Frankland, Jr., executive vice president of the Silver Users Association, Inc., which represents the interests of corporations that make, distribute, and sell products in which silver forms an essential part.

We appreciate the opportunity to appear before this subcommittee in support of S. 3344, a proposal to release to the market silver which is surplus to defense needs.

Members of the Silver Users Association, Inc. consume at least 80 percent of the silver used industrially and for the arts in this country. A fact sheet on the association as well as a list of the members are attached to this statement. Suffice to say here that member companies include domestic manufacturers of the full range of products which contain silver as an important raw material.

RATIONALE SUPPORTING SUA STOCKPILE POSITION

Rationale for the SUA position to support S. 3344 calling for the release of surplus silver from the stockpile may be summarized as follows:

By National Security Council criteria, 118 million ounces of silver have been declared surplus to defense needs, leaving 22 million ounces in the stockpile.

With the high current market price for silver—and here the situation changed; $4.25 per ounce I have in my statement. Yesterday the price was $4.14, but for the purposes of this testimony I will stay with $4.25 because too many figures are based on this level—the sale of Government silver would mean increased revenue to the Treasury benefiting all taxpayers and could reduce the budget deficit.

Government silver made available to the market would meet a portion of domestic requirements, thus lessening the need for imports.

Additional supplies to the market of usable metal would be in the best interests of millions of Americans who consume products using silver—photographic, electrical, silverware, and medical and dental supplies.

BACKGROUND ON DOMESTIC SILVER

Mr. Chairman, that concludes the rationale behind our position.

As part of our testimony, however, I have prepared a summary of the background on silver, both from the supply-consumption standpoint, as well as some of the other factors in the market.

During its 200-year history, the U.S. Government has been the largest buyer, user, and seller of silver. Currently, it is probably the largest single holder of silver in the world, with 139.5 million ounces

in the strategic stockpile, 40 million ounces in the U.S. Mint, and 7 million ounces held by the Defense Department.

DOMESTIC SUPPLIES

New production in the United States for 1975 amounted to 34 million ounces, source: Bureau of Mines.

Secondary recovery from scrap including melted coins is estimated at 70 million ounces for 1975, source: the Silver Institute.

Net imports accounted for 58 million ounces during 1975. All but 13 million ounces of this figure are attributed to countries of the Western Hemisphere, source: Bureau of Mines.

That makes a total of 162 million ounces available in the United States from these three sources.

DOMESTIC CONSUMPTION

Industrial demand in the United States for 1975 was reported by the Bureau of Mines at 158 million ounces, a drop of 19 million ounces from 1974. In 1973, consumption had been reported at an all-time high of 196 million ounces.

In addition to the sources cited above, other silver used to meet industrial requirements in recent years came from industry inventories and speculative holdings. A breakdown by usage category is contained at table A, page 8.

Senator CANNON. What is the reason for the big drop in usage from 196 million, for example, in 1973, to 158 million?

Mr. FRANKLAND. That was an all-time high, for one thing. We have had the recession as a contributing factor, as well as the high price for the raw material. It reached an all-time high of $6.70. This naturally caused an upheaval on the using side of the market.

PRICE

At the time the Treasury ceased selling silver to all comers in 1967, the price was $1.29 per ounce. It had been at that level for some time.

While the U.S. Government sold silver to domestic users at $1.29, a two-tier price system existed with the world price reaching $1.78.

In July 1967, the Treasury withdrew from the market and a month later sales were resumed as a weekly auction through November 10, 1970.

Prices rose to a high of $2.565 by June 1968, and then began dropping until a low of $1.288 was recorded in November of 1971, which was exactly 1 year after the Government finished selling.

The average price in 1972 was $1.68; $2.57 in 1973; $4.71 in 1974; and $4.42 in 1975.

A new all-time high was established at $6.70 on February 26, 1974. The strong upward pressure on the price was caused by a worldwide distrust of currencies and a speculative and investment craze. From August 1975 until January 1976, the price of silver had been in a downward trend.

The fluctuations since the first of this year have been wide, at times with 5- to 10-cent differentials not unusual from one day to the next.

The average price for 1976 through July was $4.40 with the high of $5.10 on July 6 and the low of $3.82 on January 26.

GOVERNMENT STOCKPILE

Silver was first placed in the strategic stockpile in June 1968, so it is actually a newcomer to the stockpile. That was when 165 million ounces were transferred from the Treasury in accordance with the Silver Certificate Adjustment Act of 1967.

By the Bank Holding Company Act of 1970, 25.5 million ounces were transferred to the Treasury for use in the Eisenhower coin program.

The stockpile currently contains 139.5 million ounces.

The Silver Users Association, in establishing its position on the stockpile issue, does not attempt to determine what should be considered an appropriate level of silver to meet defense needs. Rather, the association firmly supports the concept of an orderly disposal of whatever silver is determined to be surplus to defense requirements.

In this regard, the association wishes to point out that since the United States, Canada, and Mexico together produce about 115 million ounces, there appears to be no need for a U.S. stockpile in excess of 22 million ounces.

When one considers that the balance of the Western Hemisphere supplies an additional 55 million ounces of new production for about 170 million ounces against an annual current demand—that is, last year—of 158 million ounces in the United States, it is evident that this raw material would be easily accessible in an emergency.

The cited production does not include silver recovered annually from coins and other forms of usable scrap which in 1975 was estimated at some 70 million ounces.

The National Security Council has determined that a stockpile of 22 million ounces is adequate for defense needs. A release, then, of the 118 million ounces surplus to defense needs would be appropriate.

It should be noted that, in addition to the remaining balance in the stockpile, other stocks in this country could become available for emergencies, such as:

Forty million ounces in Treasury stocks for coinage;

Twenty-nine million ounces held by industry;

Seven million ounces in Defense Department stocks for contracts with Government-furnished material provisions;

modity Exchange of New York—and Chicago Board of Trade Warehouses.

An estimated 400 million to 1 billion ounces in 90 percent U.S. silver coins held by citizens;

An undetermined amout of silver in ingots held as investments by citizens.

GOVERNMENT SALES WOULD IMPROVE BALANCE OF PAYMENTS

Because the United States is a net importer of silver, this metal contributes unfavorably to a deficit in the balance of payments. Should supplies be made available from Government stocks, the need for im-

ports would be reduced. At the average price of $4.42 per ounce for 1975, the cost of silver net imports was approximately $256 million.

If imports continue in 1976 at the same level, the cost would be slightly less than in 1975 at current prices—$4.25. For every 10-cent increase in price, the cost for silver imported at the 1975 rate will be an additional $6 million.

GOVERNMENT SILVER SALES WOULD CONTRIBUTE TO MARKET STABILITY AND INCREASED REVENUE

The recent volatility in prices has been attributed to speculation and international monetary problems, including world inflation. Releases from the stockpile could dampen speculation and permit prices to return to a level more accurately reflecting a proper relationship between supply and industrial demand.

Sales of Government silver at the prive level of 1975 would mean additional revenue to the Government of $4.42 per ounce sold. At current prices, the revenue to the Government would be about $4.25; or, as of today, $4.14 an ounce.

With an average price at the former amount, the full stockpile release of 118 million ounces would realize a profit to the Government of approximately $350 million.

PROBLEMS OF SILVER PROCESSORS IN CURRENT MARKET

Because of the recession and the high silver prices, the users of the white metal have had to make drastic changes in their production schedules to include additional cutbacks and employee layoffs. Every 10-cent increase in the price for silver means additional raw material costs of $16 million to the manufacturers on an annual basis.

Historically, in the silverware industry when prices rise materially, the number of unit sales drops. This means less consumption of silver and a comparable drop in employment. Thus, unreasonably high prices for the white metal would contribute to a worsening of the employment picture.

Releases from the stockpile should help keep prices for the raw material at a reasonable level so that manufacturers could avoid unnecessary price increases due to higher raw material costs.

RECOMMENDATION

The Silver Users Association recommends that Silver from the stockpile be released for sale on an auction basis similar to the GSA sales of 1967–70. An offering of up to 1 million ounces per week would appear appropriate under present market conditions.

Mr. Chairman, this completes my statement.

However, I do have the enclosures that I would like to include as part of the record.

Senator CANNON. They will be included for the record.

[The information follows:]

FACT SHEET: PURPOSE OF SUA, INC.

The Silver Users Association, Inc., established in 1947, represents the interests of corporations that make, distribute and sell products in which silver forms an

essential part. Association membership today includes representatives from the photographic, electronic, chemical, commemorative arts, silverware and jewelry industries; dental suppliers; producers of semi-fabricated and industrial products; and mirror manufacturers.

A major purpose of the Association is to keep its members and the public informed on the pertinent developments in the field of silver; such as, production, consumption, availability, uses, prices and legislation.

The applications of silver are highly diversified and range from photography to missiles; from computers to sterling jewelry. An approximate breakdown of the silver usage in the U.S. shows these percentages: photography, 27%; electrical and electronics, 20%; sterling ware, 15.5%; commemorative and collector arts, 6.5%; electroplated ware, 6%; brazing alloys, 8%; and, jewelry, 7.5%; all others such as bearings, catalysts, mirrors, dental and medical supplies and rockets and missiles, 9.5%.

The Association estimates that its members account for approximately 80% of all silver consumed in the United States. More than 80,000 men and women work for Association members who are heavily dependent upon silver for manufacturing. In addition, there are about 1,100 firms of the Manufacturing Jewelers and Silversmiths of America and their 60–70,000 employees; the 8,200 members of the Retail Jewelers of America and their presonnel; and the 21 members of the National Association of Mirror Manufacturers and their employees. The Association was incorporated in the District of Columbia in April, 1971.

President of the Silver Users Association, Inc., is Mr. Robert F. Wilson, President, Wallace Silversmiths; Mr. Water J. Robbie, President of Gorham, is Vice President and Chairman of the Executive Committee. In addition to the President of the Association, other members of the latter committee are:

Mr. Jerome E. Doyle, Eastman Kodak Co.
Mr. J. J. Keenan, Engelhard Industries, Inc.
Mr. Denham C. Lunt, Jr., Lunt Silversmiths.
Mr. William E. Olson, Minnesota Mining & Manufacturing Co.
Mr. Jay Powers III, Powers Chemco, Inc. (Vice Chairman).
Mr. William E. Smith, Dolan Bullock (Manufacturing Jewelers & Silversmiths of America, Inc.).
Mr. Francis H. Wemple, Handy & Harman, Treasurer, SUA, Inc.
Mr. John L. Whitehead, E. I. du Pont de Nemours & Co., Inc.
Mr. Walter L. Frankland, Jr., Executive Vice President-Secretary, SUA, Inc.

SILVER USERS ASSOCIATION, INC.

SUA MEMBERS

Photographic materials

E. I. du Pont de Nemours & Company, Inc., Wilmington, Delaware.
Eastman Kodak Company, Rochester, New York.
GAF Corporation, New York, New York.
Kilborn Photo Products (Keuffel & Esser Co.), Cedar Rapids, Iowa.
Minnesota Mining & Manufacturing Company, St. Paul, Minnesota.
Polaroid Corporation, Cambridge, Massachusetts.
Powers Chemco, Inc., Glen Cove, New York.

Silverware

Gorham Division of Textron Inc., Providence, Rhode Island.
International Silver Company, Meriden, Connecticut.
Samuel Kirk & Son, Inc., Baltimore, Maryland.
Lunt Silversmiths, Greenfield, Massachusetts.
Oneida Limited, Oneida, New York.
Reed & Barton Silversmiths, Taunton, Massachusetts.
The Stieff Company, Baltimore, Maryland.
Tiffany & Company, New York, New York.
Towle Manufacturing Company, Newburyport, Massachusetts.
Wallace Silversmiths, Wallingford, Connecticut.

Commemorative and collector arts

Franklin Mint Corporation, Franklin Center, Pennsylvania.
Hamilton Mint, Arlington Heights, Illinois.
Medallic Art Company, Danbury, Connecticut.

Fabricated and industrial products

Engelhard Industries Division, Newark, New Jersey.
Handy & Harman, New York, New York.
Midland Processing, Inc., Pomona, New York.
Precision Metallurgical Corporation, Millis, Massachusetts.

Dental supplies

The L. D. Caulk Company, Milford, Delaware.

Associations

Manufacturing Jewelers & Silversmits of America, Inc.
National Association of Mirror Manufacturers.
Retail Jewelers of America, Inc.

TABLE A.—U.S. INDUSTRIAL CONSUMPTION

[In millions of ounces]

Category	1975	1974	1973	1972
Electroplated ware	8.8	13.2	14.5	12.7
Sterling ware	23.7	22.1	29.4	26.5
Jewelry	12.4	5.2	5.8	4.9
Photographic materials	46.1	49.6	52.0	38.3
Dental and medical supplies	1.5	2.4	3.0	2.0
Mirrors	3.2	4.0	2.6	1.2
Brazing alloys and solders	13.3	14.5	17.7	12.2
Electrical and electronic products:				
Batteries	3.7	4.2	4.2	6.0
Contact and conductors	27.2	31.3	40.2	36.4
Bearings	.5	.4	.4	.3
Catalysts	8.7	7.3	6.0	3.4
Coins, medallions, and commemorative objects	8.5	22.3	20.1	7.1
Miscellaneous	.4	.5	.5	.5
Total	157.9	177.0	196.4	151.6

Source: Bureau of Mines, 1972–75.

TABLE B.—WORLD SILVER CONSUMPTION AND SUPPLIES[1]

[In millions of ounces]

	1975	1974	1973	1972	1971
Consumption:					
Industrial uses:					
United States	155	172	196	151	129
Other countries	200	243	276	237	222
Coinage uses:					
United States	3	1	1	2	3
Other countries	32	32	20	34	24
Total consumption	390	448	493	424	378
Supplies:					
New production	235	240	246	240	238
U.S. Treasury silver	3	1	1	2	3
Other supplies	152	157	156	87	82
Total supplies	390	398	403	329	323
Liquidation of (additions to) speculative inventories		50	90	95	55
Available consumption	390	448	493	424	378

[1] Excluding Communist dominated areas.

Note: Data taken from Handy & Harman Silver Review, 1975.

TABLE C.—SILVER PRICE HISTORY (H. & H.-NEW YORK) 1966–76

[Dollars per ounce]

Year	High	Low	Average
1976 (through July)	5.10	3.82	4.40
1975	5.23	3.91	4.42
1974	6.70	3.27	4.71
1973	3.28	1.96	2.56
1972	2.05	1.39	1.69
1971	1.75	1.29	1.55
1970	1.93	1.57	1.77
1969	2.03	1.54	1.79
1968	2.57	1.81	2.15
1967	2.17	1.29	1.55
1966	1.29	1.29	1.29

Silver in U.S. industrial stocks

	(*Millions of ounces*)
1976 (through March)	29
1975	35
1974	60
1973	38
1972	52
1971	56
1970	82
1969	86
1968	77
1967	52
1966	55
1965	52

Source: Bureau of Mines.

Senator CANNON. What percent of the industry does your association represent?

Mr. FRANKLAND. We estimate about 80 percent of the silver consumed in this country for industrial purposes is consumed by members of the Silver Users Association.

Senator CANNON. How did your association arrive at its decision to support the disposal? Did it have a formal action?

Mr. FRANKLAND. This is in a continuing position for the Silver Users really since its formation since 1946, although the stockpile question has not been a primary issue.

The Silver Users have felt that the Government should be out of the silver business and have been always on that side of the question. It has been a position adopted by the executive committee and the full membership has been made aware of the position. Therefore, it has been accepted by the membership.

Senator CANNON. Do you have objections from any of your members?

Mr. FRANKLAND. None have been objecting.

Senator CANNON. You propose disposal of about 1 million ounces per week.

How did you arrive at that precise figure?

Mr. FRANKLAND. I said up to 1 million.

We take no firm position on this other than the fact that we think it should not be more than 1 million ounces. We base this on the experiences that we had during the last Government sales. They started out at first at 2 million ounces a week; then they were reduced to 1½ million We think under present market conditions that no more than a million ounces would be appropriate.

We would rather leave the firm decision on the disposal process to the expertise in GSA. We think that the last time we worked with the GSA in the disposal, after they had conferred with both the users and producers, they came up with a workable solution. We believe that same expertise would serve them well in this case and we would rely on their decision.

Senator CANNON. You indicated that we import about 60 million ounces a year. This would be 52 million ounces sold.

What would it do to the market of these foreign suppliers?

Mr. FRANKLAND. Fifty million ounces would equal roughly last year's import figure.

The record shows that the import figure varies from year to year. We do not believe that GSA sales would materially affect the production of silver. Silver might have a different flow around the world, but I don't believe it would affect particularly the production schedule.

Senator CANNON. What do you anticipate it would do to the price worldwide?

Mr. FRANKLAND. Honestly, Mr. Chairman, I cannot predict what it would do to the price. I say that truthfully mainly because I have not been able to predict other actions which have affected the price.

Senator CANNON. You certainly know it wouldn't drive the price up, don't you?

Mr. FRANKLAND. If you take a look at what happened the first 9 months of the last Government sales, the price went sky high. It kept going up. The more silver the Government sold, the higher the price went. It did for the first 9 months. That was incredible.

At the time the Government ceased exchanging silver for the silver certificate, in June of 1968, the Government was putting into the market an average of 20 million ounces a month and the price reached its all-time high at that point. No sooner had they ceased exchanging the silver certificates, the price started going down.

In other words, when the spigot was turned off, the price started down. It went from 20 million ounces per month on the average to 8 million ounces on the average. When the Government cut back to 1½ million in its sales, the price continued to go down.

A year after the Government quit selling, the price had dropped to $1.288.

There are so many factors that affect the price of silver other than just Government sales that I think it would be hard to predict exactly what would happen in the case of the sale, especially if it is done with the same expertise as it was the last time.

I agree that this assures an additional supply of silver. So, under normal circumstances, increased supplies would certainly have——

Senator CANNON. What do you anticipate would happen to United States production? Do you think production in the United States would go down as a result of these sales?

Mr. FRANKLAND. I don't think it would; however, it has been going down without the sale of Government silver. It might continue to go down. I don't think it would affect it one way or the other.

Senator CANNON. If it were sold off at 1 million ounces a week, what would you estimate the revenue would be per year to the Government?

Mr. FRANKLAND. If you take a $4 figure, the revenue would be, the total revenue—you have to go to straight multiplication, but through the bookkeeping process, the Government is now carrying the silver at $1.29. Our figure shows $350 million profit at $4.25. At $4, it would be 25 cents less per ounce. That would be $30 million less for the 118 million ounces.

Senator CANNON. Do you have any figures on what percentage of the annual U.S. consumption goes into defense-related programs?

Mr. FRANKLAND. No, sir; I do not. I do not believe that our membership could provide that, either. This would have to be something provided by the Defense Department.

Senator CANNON. Do you know of any opposition to this disposal?

Mr. FRANKLAND. I would say yes; there is opposition.

Senator CANNON. Who would oppose it?

Mr. FRANKLAND. I just read briefly the statement of the American Mining Congress. That is the only one I have read so far. They do oppose it—at least, according to the statement, at least until the current review is terminated.

From the producer side, they have always opposed; at least in the case of silver they have. On some other disposals, they haven't but in the case of silver they have.

I am sure speculators and people who deal in silver as an investment would oppose this because of the psychological factor that it might have, once it is known that the Government has a supply of silver that could be made available.

Senator CANNON. Thank you very much. I would ask that the statement by the American Mining Congress be placed in the record at this point.

Mr. FRANKLAND. Thank you, sir.

[The information follows:]

PREPARED STATEMENT OF SIMON D. STRAUSS, EXECUTIVE VICE PRESIDENT, ASARCO INC. ON BEHALF OF THE AMERICAN MINING CONGRESS

Mr. Chairman and Members of the Subcommittee:

My name is Simon D. Strauss. This statement is submitted on behalf of the American Mining Congress with respect to S. 3344, S. 3345, S. 3346, and S. 3347, bills to authorize disposal of various materials from the national stockpile. I am Executive Vice President of ASARCO Incorporated, a mining company which is a member of the American Mining Congress. Asarco mines, smelts and refines silver. It produces antimony as a by-product of its processing operations in the form of antimonial lead and antimony oxide. Through the Federated Metals Corporation it is a consumer of tin for solders, bronze alloys and other alloy products. It is not engaged in the industrial diamond field.

I currently serve as Chairman of the Minerals Availability Committee of the American Mining Congress. My knowledge of the stockpiling programs dates back to World War II when, as an officer of the Metals Reserve Company, a government corporation engaged in the procurement of strategic materials for the war effort, I participated in negotiations for the acquisition of materials that were subsequently transferred to the national stockpile when it was created under an Act of Congress in 1946.

The stockpile was established to insure an adequate supply of strategic and critical materials for the security of the nation. Decisions as to which materials would be included in the stockpile have been made by inter-governmental committees. Stockpile targets have also been determined from time to time within the government. There has been no consultation with private industry, either producers or consumers of the materials involved. The advice sought by government officials from industry has been largely limited to determining specifications for commodities to be stockpiled. When sales have been authorized, there have been consultations with industry as to methods and timing of disposals.

Over the 30 years of the stockpile's existence, objectives have been changed frequently. It has been stated that these changes have been made in response to changing concepts of possible threats to national security—the nature and duration of any anticipated military conflicts and technology which might affect use of specific materials. Not until the early 1960s were stockpile objectives made public. Since then objectives have been a matter of public record.

The drastic nature of the changes in stockpile objectives can perhaps best be illustrated by citing the example of copper, a basic industrial raw material, for which the objective has been changed six or seven times. The amount of the objective has varied from zero to 3,500,000 tons—the latter figure representing almost two years' U.S. consumption of refined copper.

The most recent review of stockpile objectives was announced in early 1973 by President Nixon, when virtually all target figures were sharply reduced. In a statement explaining these reductions the President emphasized the following points:

That future major military conflicts were expected to be of short duration.

That, if this should prove to be wrong, it would be possible either to substitute other materials for materials in short supply or to expand domestic sources within the period of one year, which was apparently the new yardstick for stockpile reserves.

Furthermore, the President indicated that disposal of materials from the stockpile would serve a useful national purpose in controlling inflation at a time when prices of raw materials were rising rapidly.

He did not say that the revenue from the stockpile sales would be helpful in bridging the gap in the national budget. But it was widely believed in the business and financial community that this was a major consideration in the decision to virtually liquidate the national stockpile.

The American Mining Congress is not qualified to make judgments as to the nature or duration of future military conflicts. In passing, however, it seems appropriate to observe that the last major military effort in which this country was involved was the war in Vietnam, in which our participation extended over a period of some six or seven years.

With respect to the belief that—should the need arise—deficiencies can be met by substituting other materials or expanding production, as industrialists we are profoundly skeptical that such arrangements can be accomplished within the time frame of one year. Substituting one material for another requires extensive redesign and retooling, always a cumbersome and time-consuming procedure. As for expansion of production, even where reserves of minerals are definitely blocked out, a producing mine cannot readily expand production in less than two years. The development of new mining properties may require from three to five years, provided infrastructure of transport, power water supply and housing is available. Where such infrastructure is not available, new mining properties may take much longer periods to bring into production.

Nor does past experience with stockpile sales lend much support for the belief that such sales can be used to control prices. In 1965 and 1966 substantial sales of stockpile copper were made in an effort to prevent prices rises, but this did not prevent sharp increases in prices in subsequent years.

Basically, of course, the use of the stockpile for purposes other than national security is contrary to both the letter and the spirit of the law which originally established this Act. If the government desires to use the stockpile for purposes other than national security, the matter should be brought out in the open and debated as such.

Small wonder that the history of the stockpile over the last 12 to 14 years has left the mining industry with the strong impression that the targets for stockpile objectives are being manipulated for purposes other than national security. The frequency and extent of the changes in stockpile objectives make this impression unavoidable.

This sentiment apparently was shared by the Congress in view of its reluctance to enact specific disposal bills which have been proposed by the Administration from time to time since 1973. The Chairman of this Committee has repeatedly asked that the Administration review its stockpile objectives. From comments appearing in the press, it is our impression that such a review is currently underway.

In the specific case of zinc, domestic zinc producers were recently advised that the stockpile objective, set at 202,700 tons in 1973, has now been increased to 374,830 tons. It is probably not entirely a coincidence that the new objective is precisely the amount of zinc currently held in the stockpile.

The legislation before you at this time proposes disposal of four materials—antimony, industrial diamonds, silver and tin. No revision of objectives has been announced for these materials since 1973.

According to the stockpile report of the Federal Preparedness Agency for the period July to December, 1975, the present stockpile objective for antimony is zero, for industrial diamond stones is zero, for silver is 21,663,000 ounces and for tin is 40,500 long tons.

For antimony, the stockpile as of December 31, 1975 held 40,714 tons. The bill proposes to sell 10,000 tons or about 25% of the present holdings. Consumption of antimony in this country averages approximately 36,000 tons a year and net imports of antimony have averaged about 19,000 tons annually, or 52% of consumption. The balance is met largely from secondary sources, i.e., scrap. Domestic production of primary antimony is negligible and we are not aware that a substantial domestic source is likely to be developed. The bulk of U.S. antimony imports come from the Union of South Africa, Bolivia and Mexico. China is a major producer but has largely supplied the European market. In the event the Chinese supply should not be available to Western Europe, consumers there would compete with the United States for access to antimony from present U.S. import sources. Nevertheless, the antimony stockpile objective is currently zero, indicating an intention eventually to dispose of the entire tonnage currently held.

The stockpile holds two qualities of industrial diamonds—crushing bort in the amount of some 33,600,000 carats and industrial stones in the amount of 20,000,000 carats. The proposal before the Committee is to sell 8,500,000 carats or 42½% of the stockpile of industrial stones. The statistics available with regard to domestic consumption do not break down quantities as between crushing bort and industrial stones. In recent years synthetic diamonds have been produced in the U.S. in an amount adequate to meet domestic needs for smaller sizes. However, synthesis of larger diamonds, usable as industrial stones, is not commercial. The U.S. is entirely dependent on imports of these stones or on sales from the stockpile. The sources are primarily in Africa. Since the U.S. has no domestic sources and since industrial diamonds are an essential material for the national economy, the existence of a zero stockpile objective raises obvious questions. The proposed sale of almost half of the reserve of these stones should be carefully scrutinized by the Congress.

The present silver stockpile objective of 21,663,00 ounces compares with an average U.S. consumption of 163,000,000 ounces annually—most of which is for industrial purposes and not for ornamental purposes as the public perhaps generally believes. Over the five years 1971–1975 net imports of silver into the United States have averaged 73,000,000 ounces annually, chiefly from Canada and Latin America—despite the fact that during this period the government was selling large amounts of silver. Domestic mine production accounts for approximately 25% of U.S. consumption. Salvage from scrap account for another 25%. For the balance the U.S. is dependent on imports. The proposed sale of 118,000,000 ounces of silver from the stockpile is equivalent to 84.7% of the 139,500,000 ounces now held. It is perhaps relevant to note that during World War II, when the Treasury held very large stocks of silver, more than 900,000,000 ounces of silver was taken from the stockpile for various wartime purposes. The proposed sale would eliminate all silver in excess of the small objective established in 1973. This appears to imply that the review of the stockpile objective for silver has indicated no necessity for increasing this small reserve, equivalent to not much over three months' imports.

Should those charged with the task of setting stockpile objectives decide at some later date that a larger stockpile for silver is needed, the cost of acquiring new reserves may well be substantially higher than the present market. Statistics

clearly demonstrate a net deficiency in world production of silver compared with current demand. The deficit is being met at present by the melting down of coins and the gradual liquidation of large hoards of silver held in the Far East.

The tin objective of 40,500 tons represents somewhat less than one year's net imports into the United States. Over the last five years, consumption of tin has averaged 66,000 tons annually while imports have averaged 45,000 tons annually, chiefly from the Far East and Bolivia. Apart from an extremely small domestic production, the gap between imports and consumption has been met through stockpile sales and through salvage of secondary tin. As of December 31, 1975, the holdings of tin in the stockpile amounted to 206,873 tons. The proposed sale of 28,000 tons of tin is equivalent to 13½% of the total material held in reserve.

Should Congress approve disposal of the quantities set forth in the bill, there would remain in the stcokpile 30,000 tons of antimony, 11,500,000 carats of industrial diamond stones, 21,000,000 ounces of silver and 178,000 tons of tin. In relation to the present rate of U.S. import dependence these remaining amounts are equivalent to 1.6 years of antimony imports; 1.3 years of industrial diamond imports; 0.3 years of silver imports; and 4 years of tin imports.

The American Mining Congress opposes disposal until completion of the current review of the stockpile objectives. Furthermore, in view of past frequent changes in objectives, members of the Congress should be satisfied that the decisions are based solely on considerations of national security and do not include considerations of price control or budget balancing. If the government decides that stockpiles should be used for purposes other than security, then the law should be changed. The AMC feels such a change would be unwise. But whether wise or not, stockpile rules and objectives should be clearly and specifically stated. This is preferable to a situation in which the intent of the law is being circumvented through manipulation of stockpile objectives.

To sum up, AMC sees no need for action on disposals at this time. The materials involved are not in short supply. Shortages are not in the offing. Industry has adequate access to all four materials through commercial channels. Until the review of the stockpile objectives has been completed, Congress should defer action on new disposal legislation, in the absence of a demonstrable national emergency.

Senator CANNON. The next witness is Mr. Malcolm A. Wilkinson, vice president, operating services, Weirton Steel Division, National Steel Corp., on tin.

STATEMENT OF MALCOLM A. WILKINSON, VICE PRESIDENT, OPERATING SERVICES, WEIRTON STEEL DIVISION, NATIONAL STEEL CORP.

Mr. WILKINSON. Good morning, Mr. Chairman.

My name is Malcolm A. Wilkinson. I am vice president of operating services for the Weirton Steel Division of the National Steel Corp.

We welcome and appreciate, personally, as well as professionally, this opportunity to testify on S. 3345 which, if enacted, would authorize disposals from the national and supplementary stockpiles of 28,000 long tons of grade A tin.

Why is this bill of such concern to National Steel?

Very simply, it is one of our more important raw materials and is used in the manufacture of tinplate. The largest use of tinplate is for containers or cans used not only for foods but also for paints, oils, tobacco, detergents, insecticides, proprietary drugs, and beverages.

National Steel Corp. ranks among the top three tin plate producers in the United States. In 3 of the past 5 years, our shipments of tinplate have exceeded 1 million tons annually. Shipments and production at this rate require approximately 4,000 to 4,500 gross tons of pig tin, depending on the product mix and coating weights. In all our

purchases, we specify grade A tin, containing a minimum of 99.85 percent Sn., the type being authorized for disposal under S. 3345.

The proposed legislation is important to National for two reasons:

It guarantees the immediate availability of stockpiled tin in the event of national exigencies; and

The authorization acts as some degree of leverage in stabilizing world tin prices set under the International Tin Agreement which is biased in favor of tin-producing countries.

The first reason is fairly self-explanatory. The authorization to dispose of tin from the national stockpile is just that—an authorization.

Surely, we are farsighted enough as a government to safeguard our economic interests, given the swiftness and unpredictability with which modern-day events occur. Because of the uncertainty of political relations with producing countries, I can't see how we could do otherwise.

Over the past few weeks we have witnessed the havoc and disruption that can be wrought by national disasters, such as the earthquakes that have been inflicted upon the Far East. Tin is highly susceptible to such interruptions of supply. Being 100 percent dependent upon imports, American tin consumers are in turn placed in a highly vulnerable position.

There is another reason, one which is uppermost in our thinking these days. I am speaking now of the Fifth International Tin Agreement.

As you well know, U.S. accession to this agreement is pending before the Senate Foreign Relations Committee. Last September 1st, Secretary of State Kissinger committed the United States to joining the agreement.

It represents the first nonagricultural commodity agreement entered into by this country.

What disturbs us and should disturb this committee is the failure in the first instance to relate the International Tin Agreement to U.S. stockpile policy. Here are some of our nagging concerns:

Why hasn't the issue of U.S. contribution to the Fifth International Tin Agreement, either in tin metal or otherwise, been thoroughly aired?

If the United States enters into the Fifth International Tin Agreement, what will be the effect on your domestic stockpile program, and how will this in turn affect tin disposals?

How would the United States authorities intend to fulfill that portion of article 43 of the International Tin Agreement which will require the United States to "give due consideration" to recommendations of the International Tin Council concerning disposals of tin from noncommercial stockpiles?

There has been no clarification by the executive branch of its views on this critical issue. Prior to acting on the International Tin Agreement, Congress should fully explore the impact which the agreement could have on the ability of the United States to maintain our domestic stockpiles.

We find it incredulous that there is, in fact, no "legislative history" by which American tin consumers can judge how our Government officials intend to respond to conditions arising under the agreement.

These gaps in information plus the producer bias inherent in the International Tin Agreement only fuel our apprehension as to how the economic—and I stress, economic—interests of this country will be served under the Agreement.

As mentioned earlier, we view the authorization in S. 3345 as leverage to insure that the interests of American consumers of tin and users of tin cans, ranging from housewives to industrial users, are given some degree of protection against undue price increases resulting from the cartel arrangement of the world's producing countries.

In summary, we will support and urge the enactment of S. 3345.

That concludes my statement, Mr. Chairman.

Senator CANNON. Thank you for your statement, Mr. Wilkinson.

Who are the big users of tin in the country today?

Mr. WILKINSON. The steel industry for the purposes mentioned, solder industry, people who manufacture solder, the electrical industry.

I think I have cited a few major ones.

Senator CANNON. You refer to this cartel, international tin agreement.

If the United States joined that, would that make them a part of what you refer to as a cartel?

Mr. WILKINSON. Yes, sir, I am afraid we would be then, if we were involved in the deliberations of the ITC, which has as its purpose the maintenance of price stability in the sale of tin; we would be in a position of contributing to a stockpile to, in effect, hold the price at a level other than that determined by the marketplace.

Senator CANNON. In other words, it would be used solely for the purpose of controlling price?

Mr. WILKINSON. Yes, sir.

Senator CANNON. At what rate would you expect this disposal of tin would be made without disrupting the market?

Mr. WILKINSON. I would not be able to voice an opinion on that. I would suggest that would be the discretion of the administrator discussed in this case. It certainly is not our intent to drive the price down by an abrupt or unwise release.

Senator CANNON. What is the price now?

Mr. WILKINSON. The price now is approximately $3.75.

I beg your indulgence there.

That price is about 10 days old.

I am just off vacation and have not been back in the office.

It has varied from $3.50 to $3.98 the past 6 weeks.

Senator CANNON. It has been fairly stable in that area?

Mr. WILKINSON. It has been rising consistently this year for reasons which we can only speculate.

There is some theory that people who speculate in currency are presently speculating in metals and this has driven it up, but it has gone up.

Senator CANNON. Do you see any conflict between this proposed tin agreement and the strategic stockpile legislation.

Mr. WILKINSON. I cannot say that I see a conflict.

I have a concern because of the uncertainty about what "due consideration" means when it comes to disposal. We must certainly take into account the views of the members of the ITC.

There is just considerable uncertainty in my mind as to the connection between the views of the producing tin countries and the necessity for our strategic stockpile, maintaining it at a given level.

Senator CANNON. Do you have an estimate as to the percent of tin that goes for defense or defense-related industries?

Mr. WILKINSON. No, sir, I am afraid I cannot supply that right now.

I could obtain the information for you, however, and submit it for the record, if you wish.

[The information follows:]

The Department of Defense requirement for the years the United States is stockpiling for, ranges between 15 and 18 percent of the total requirement.

Senator CANNON. Do you know if there is any opposition to this disposal?

Mr. WILKINSON. I know of no real opposition; no, sir.

Senator CANNON. What is our situation with respect to imports now?

Mr. WILKINSON. All of the tin that is consumed is imported.

Senator CANNON. We don't produce any tin in this country?

Mr. WILKINSON. No, sir.

Pig tin is imported from South America and the Far East, largely.

Senator CANNON. I see here from my chart that Malaysia apparently is the biggest producer.

Mr. WILKINSON. Yes, sir.

Senator CANNON. Thank you very much, Mr. Wilkinson.

Mr. WILKINSON. Thank you, Mr. Chairman.

Senator CANNON. I would like to include here statements provided for the record by the Malayan Tin Bureau, Bethlehem Steel Corp., and Gulf Chemical & Metallurgical Division of Metals & Minerals Corp.

[The information follows:]

PREPARED STATEMENT OF R. D. COURSEN, DIRECTOR OF THE MALAYAN TIN BUREAU

Mr. Chairman, we appreciate your invitation to present our views on your bill S. 3345 with specific reference to that section of it dealing with 28,000 long tons of tin.

My name is R. D. Coursen and I am director of the Malayan Tin Bureau located in Washington, D.C., representing the interests of the 851 active tin mines in Malaysia. The largest number of these are owned by Malaysian nationals but there is also a significant number of international companies from the United States, United Kingdom, France, and Australia. They presently employ 37,569 people. Only 17 months ago, there were 1,050 mines and 44,097 persons actively employed on them. The drop is due to the general depression under which the tin mining industry has been suffering for some while. There have been some spasmodic price increases particularly in May and July of this year, but the general picture has been a depressing one.

It has been indisputable in the past that whenever there has been introduced legislation leading to the disposals of tin from the United States stockpile, existing prices have declined. There was, of course, one exception during the OPEC situation during 1973–1974. During that period, it seemed that the more stockpile tin that the General Services Administration sold, the higher went the price. Traditionally and normally, however, the opposite is the case. Even a rumor of activities involving the General Services Administration causes the price of tin to drop. As producers facing a depressed situation, we are not anxious to see a future price decline. However, we have recognized for many years, that an elimination, or at least a diminution of the size of the Sword of Damocles hanging over our heads in the form of the U.S. stockpile is salubrious. We have also recognized the indisputable fact that discreet and well-thought out disposal plans for tin have alleviated the worries of such large tin consumers in the United

States as the steel industry. This has, as a result, tended to reduce or diminish that industry's impluse to step up research in an effort to find lower-cost substitutes for tin for the manufacturing of such items as tinplate.

We now turn to that part of the legislation concerning disposal which states: ". . . the time and method of disposition shall be fixed with due regard to the protection of the United States against avoidable loss and the protection of producers, processors, and consumers against avoidable disruption of their usual markets." As a general rule, the performance of the General Services Administration in disposing of tin since 1962 has been fair and enlightened. The committee will recall that from September 12, 1962, until August 13, 1976, that agency has sold 114,467 long tons. Of that amount 19,606 tons were sold in 1973, 23,554 in 1974, only 570 in 1975, and 2,739 the first six months of this year. These figures are put into perspective by the reports of the United States Bureau of Mines showing domestic consmuption of primary tin in 1973 of 57,770, in 1974 of 48,001, and in 1975 of 42,000. These sales have all been at prices substantially in excess of the original governmental acquisition cost of U.S. $1.08 per pound. Remembering the published price of the General Services Administration on August 13 of U.S. $3.72 per pound and considering storage costs for 28,000 tons which we estimate to be U.S. $11,000 per annum, there will be a hefty profit, indeed, for the U.S. taxpayers.

One of the merits, from a global standpoint, of authorizing the disposal of 28,000 tons of tin is the fact that the United States is now a member of the Fifth International Tin Agreement. This week the United States Senate is finally considering official ratification of a treaty to authenticate that fact. The agreement depends on a buffer stock arrangement which contains either tin or its cash equivalent amounting to 20,000 long tons. This is to be used to even out temporary aberrations in world tin markets; on the high side of prices the buffer stock sells physical tin and on the low side, it buys. Experience, particularly during the life of the Fourth Agreement (1971–1976), indicated that 20,000 tons was insufficient. Sales by the General Services Administration during that time were of real value in supplementing the sales of the buffer stock and providing a steadying and stabilizing influence. The G.S.A. Assistant Director for Stockpile Disposal and his predecessor have used sound judgment in providing this steadiness.

"Even though we have come to rely so heavily on the good judgment of the General Services Administration, we believe it important for the tin producers of the world, all but one of whom are classified as developing countries, for the language of the bill under discussion to embody further safeguards. We do hope for assurance that tin would not be sold from the stockpile at such times as the market price for tin was in the price range at which the buffer stock manager is obligated or empowered to buy tin. At the present time the cash equivalent of that level is U.S. $3.15 per pound. Such an assurance would mean a great deal to the mining companies of Malaysia, particularly those operating what amount to small family businesses.

Lastly, we remind the committee of the fact that any kind of mining is speculative. It takes money to mine tin. The higher the price, the more tin will be mined, and the lower, the less. Further, market conditions that remain depressed for a considerable length of time tend to destroy the incentive for capital for land, for labor, and for machinery. Since American consuming industries have traditionally depended on Straits tin from Malaysia for more than one-half of their needs for primary tin, then a viable Malaysian tin mining industry is required."

PREPARED STATEMENT OF JAMES J. FERRIGAN, ASSISTANT GENERAL PURCHASING AGENT, BETHLEHEM STEEL CORP.

Mr. Chairman, my name is James J. Ferrigan. I am Assistant General Purchasing Agent of the Bethlehem Steel Corporation, and in that capacity have as one of my responsibilities the supervision of tin purchasing.

My Company appreciates this opportunity to present its views on S. 3345, legislation which would authorize the disposal from the national and the supplemental stockpile of 28,000 long tons of tin.

As one of the major consumers of tin, we support this legislation and recommend to the Committee its adoption. With the supply of Grade A tin authorized for disposal having been exhausted, this legislation is necessary. Coming as it does amid debate on United States participation in the Fifth Interna-

tional Tin Agreement, we believe this legislation is timely. In that it merely authorizes the release of tin for disposal but does not direct or mandate such disposal, it should be held as uncontroversial.

At the moment, tin is in ample supply. The labor situation, the weather, the political climate, the price level and a somewhat easier demand are all cooperating toward that end. In our view, it is at just such time that a stockpile disposal authorization should be calmly but resolutely undertaken and approved.

Things can change, and change with dramatic swiftness. The monsoons will come; labor and political unrest give scant warning; demands grow with a hearty disdain for the most careful projections. Aside from the tin in our national stockpile, the bulk of our tin supplies are half a world away, with deliveries subject to every imaginable vagary.

The history of past disposal authorizations gives ample evidence that they can seldom be effectuated with dispatch. But with a release authorized and on the books, actual disposal can be implemented as required and as indicated by the nature and timing of the emergency.

We need only cite the still-developing events of recent days in Korea to provide ironic evidence of the need for this legislation. The military posturing subsequent to the tragedy that took place induced a near-record one-day rise in tin futures quotations. A portent? Perhaps. But in any case, ample evidence that the legislation now under consideration by this Committee is in every way needed, timely and uncontroversial.

Finally, we would be remiss if we did not at this point share an anxiety which is of direct concern to your Committee. The Senate Committee on Foreign Relations has under active consideration the matter of ratification of United States participation in the Fifth International Tin Agreement. Unless rejected by the membership of the Senate, the United States will become a member. As a member we will find ourselves bound by the provisions of the Charter. Bearing on the legislation at hand will be the provisions of Article 43 of the Charter, which is quoted in its entirety in the attached Appendix A.

It would be presumptuous of us to try to interpret for the Committee the possible effect of Article 43 on this legislation but our reading of the language suggests that it may pose problems. We can hardly conceive that Article 43 would impede the origination or passage of authorization legislation. But Article 43 appears to directly affect actual disposals of tin, including the manner and timing by which U.S. Government may chose to act.

This very problem was high on the list of reasons which led us to testify at the recent hearings of the Senate Committee on Foreign Relations in opposition to United States participation in the Fifth International Tin Agreement. It would be most regrettable if the United States were to enter into such an International Agreement without Congress first determining, through its committees, what the national stockpile policies should be and then assessing the impact on the International Agreement on the national objectives.

Mr. Chairman, with my thanks to you and the Committee, I conclude my remarks.

Appendix A.—Excerpt From the Fifth International Tin Agreement

Article 43

Disposal of tin from non-commercial stockpiles

(a) A participating country desiring to dispose of tin from non-commercial stockpiles shall, at adequate notice, consult with Council concerning its disposal plans.

(b) At the time when a participating country gives notice of a plan to dispose of tin from non-commercial stockpiles, the Council shall promptly enter into official consultations on the plan with that country for the purpose of assuring adequate fulfillment of the provisions of paragraph (d) of this article.

(c) The Council shall from time to time review the progress of such disposals and may make recommendations to the disposing participating country. Any participating country so concerned shall give due consideration to the recommendations of the Council.

(d) Disposals from non-commercial stockpiles shall be made with due regard to the protection of tin producers, processors and consumers against avoidable disruption of their usual markets and against adverse consequences of such disposals on the investment of capital in exploration and development of new sup-

plies and the health and growth of tin mining in the producing countries. The disposals shall be in such amounts and over such periods of time as will not interfere unduly with production and employment in the tin industry in the producing countries and as will avoid creating hardships to the economies of the participating producing countries.

CADWALADER, WICKERSHAM & TAFT,
Washington, D.C., September 2, 1976.

HON. HOWARD W. CANNON,
Chairman, Subcommittee on National Stockpile and Naval Petroleum Reserves, Senate Armed Service Committee, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This letter is written on behalf of Gulf Chemical and Metallurgical Division of Associated Metals & Minerals Corporation, the operator of the only tin smelter in the United States. It is written to bring to your attention the specific need of Gulf to be assured that it will receive, as a producer, "the protection of the producers, processors and consumers against avoidable disruptions of their usual markets" that S. 3345 requires. This protection is traditional as a legislative requirement. Gulf is anxious that it finds expression in the actual behavior of the executive and so desires to make its situation a part of the legislative history of S. 3345.

Known as the Texas City smelter, the smelter operated by Gulf was built by the United States government as a World War II emergency measure, and was operated continuously under government contract until 1956 when it was sold to private industry.

The operations of Gulf today proceed on this basis: tin concentrates, predominantly from Bolivia, form the base load and recycled residues complete the feed. The residues, available at low cost from industrial facilities that would otherwise discard them, provide a levelling factor on final price. The base load of concentrates, very much more expensive, allows productive use of the residues.

Currently, Gulf is producing more than 6,000 tons of tin per year. Some 75–80% of this production is based on concentrates; the balance comes from the secondary materials.

The current Gulf Production is on the order of 20% of present United States consumption. Gulf's only realistic market is the domestic market. Gulf smelted tin normally cannot compete in world markets.

Gulf is engaged in a substantial exploration effort to find tin ore in the United States and is continually seeking ways to enhance its domestic independence. This, of course, is a national goal for strategic considerations as much as an economic undertaking for Gulf and its several hundred employees.

Tin released from the stockpile is sold in the domestic market and therefore poses a direct threat to displace Gulf sales. The traditional protection against such displacement is the language in S. 3345 requiring that the disposal not entail avoidable disruption of the usual markets of producers. Absent such a protection, Gulf's very existence as the sole U.S. producer of primary metal could be threatened because of the great volume of stockpile tin available for disposal at any given time. With such protection, any disposal program must be scheduled in an orderly manner which avoids this threat. To protect Gulf, and to promote the national independent capacity for this strategic material, Gulf requests that the Committee specifically continue the traditional protecion against usual markets disruption that S. 3345 now provides.

Respectfully submitted,

STEPHEN N. SHULMAN.

Senator CANNON. The next witness is Mr. Joseph W. Finney, Director of Materials, Metal Division, NL Industries, Inc., on antimony.

STATEMENT OF JOSEPH W. FINNEY, DIRECTOR OF MATERIALS, METAL DIVISION, NL INDUSTRIES, INC.

Mr. FINNEY. Mr. Chairman and members of the committee, and all others present:

My name is Joseph Finney. I am the director of materials of the metal division of NL Industries, Inc., Highstown, N.J.

I appreciate the opportunity to appear before your committee today to discuss S. 3346, a bill to authorize the disposal of antimony from the national stockpile.

NL Industries, the company I represent, is both a producer and a consumer of antimony units. We produce metallic antimony and antimony trioxide at our smelter in Texas. The basic raw material consumed at this smelter is antimony ores and concentrates.

Although we own mines in Mexico which are the major source of supply to our smelter, we do regularly buy ores and concentrates from outsides sources in the international marketplace.

In addition, we consume antimony units mainly in the form of scrap in our secondary lead smelters across the United States. At our facilities, we manufacture antimonial lead alloys in various metal products. The overwhelming majority of these alloys are used by our customers in the battery industry.

For your guidance, Table 1 shows the U.S. industrial consumption of primary antimony during the years 1972 through 1975, as reported by the U.S. Bureau of Mines.

You can see, Mr. Chairman, if you look at that chart under metal products, antimonial lead is by far the largest user with 7,200 pounds, approximately, out of a total of 8,400 tons.

Total antimony units consumed in the battery industry are declining and will most likely continue to decline as the maintenance-free or low-maintenance batteries gain a larger share of the automotive battery market. The new alloys used in these batteries contain either no antimony units or substantially reduced antimony units.

We, therefore, have a situation in the metal products area of consumption wherein more antimony units are being recycled in the form of scrap than are required.

On the other hand, we have substantial growth in the consumption of antimony trioxide as a flame retardant. Present forecast indicates that this growth will continue.

At the present time, the potential surplus of antimony units in the secondary or recycled form is not usable for the production of trioxide as the industry is now constructed. Further investment in equipment and technology is needed.

One must remember also that antimony is an international commodity as, as such, is affected by international developments. Three of the countries most active in the supply of antimony units, both as ore, concentrates and metal and trioxide, are China, Bolivia, and South Africa.

You are in a better position to understand what is now happening in these countries.

As a buyer of antimony, however, I can tell you that any upheaval in these areas can have a dramatic effect on prices and availability of antimony units in the United States. The United States is a net importer of antimony units.

The attached tables II and III are helpful.

Again referring to table II, you can see that the U.S. imports in 1974, for example, were 22,119 tons of antimony.

Again, if you refer to table III, you will see that the three countries which I mentioned, Bolivia, South Africa, and China, which is included in "other countries" are substantial suppliers of that import.

Senator CANNON. These charts indicate 1975 at a lower rate now. Is the 1975 chart only covering a part of a year?

Mr. FINNEY. Yes; only for antimony.

As in most metal consumption, stability of price and availability of material are the most important components both of growth and investment. It is for this reason that NL Industries is in favor of this legislation.

We believe that the authorization to dispose of this 10,000 tons of antimony will give the antimony market the stability and assurance of supply needed to bring about the developments mentioned above.

Our one concern, however, is the protection of U.S. producers, processors, and consumers as to the method and timing of the disposal.

Our experience with GSA in recent disposal plans such as tin, lead, and zinc has shown us that it is cooperative and considerate and, in addition, shares our concern for industry. We have no reason to doubt their continued professional handling of this antimony disposal, and we offer our help to them in this regard. With this in mind, NL industries supports S. 3346.

Thank you for your time.

I will be glad to respond to any questions you might have.

[The tables referred to follow:]

TABLE 1.—U.S. INDUSTRIAL CONSUMPTION OF PRIMARY ANTIMONY

[Use of antimony in production of finished products in short tons of contained antimony as reported by the U.S. Bureau of Mines]

	1972	1973	1974	1975 [1]
Metals products:				
Ammunition	64	122	121	239
Antimonial lead	6,149	8,027	7,251	4,023
Bearing metal and bearings	559	527	476, 318	
Cable coverings	19	12	16	29
Castings	39	65	31	1
Collapsable tubes and foil	20	12	18	10
Sheet and pipe	108	97	69	59
Solder	177	191	205	75
Type metal	142	134	107	47
Other	105	104	135	34
Total	7,382	9,291	8,429	4,837
Nonmetal products:				
Ammunition primers	23	18	11	10
Fireworks	4	5	11	6
Flameproofing chemicals and compounds	2,280	2,906	4,383	2,209
Ceramics and glass	1,695	1,917	1,384	931
Pigments	644	844	460	203
Plastics	2,391	2,920	1,431	479
Rubber products	587	693	664	223
Other	1,118	2,219	1,268	511
Total	8,742	11,322	9,612	4,606
Grand total	16,124	20,613	18,041	[2] 12,085

[1] Preliminary.
[2] Includes 2,642 short tons o f undistributed consumption.

TABLE 2.—IMPORTS OF ANTIMONY

[Consumption of crude and ore (antimony content) metal and regulus in short tons. Mines data prior to 1965, Department of Commerce data.[1]]

	1958 to 1964			1965 to 1975					
	Crude and ore	Metal and regulus	Totals	Antimony ore and concentrate	Antimony metal[2]	Antimony oxide[2]	Total imports	Metal and regulus	Totals
1958	3,427	4,282	7,709					1,845	15,634
1959	6,466	4,422	10,888					910	9,232
1960	6,455	5,437	11,892					1,272	10,720
1961	6,713	4,912	11,625					321	16,055
1962	8,602	4,720	13,322					8,107	27,483
1963	9,784	5,717	15,501					6,497	28,034
1964	10,676	3,443	14,119					9,330	38,183
1965				10,360	2,673	2,178	15,211	293	17,173
1966				12,460	2,830	5,383	20,673	627	23,363
1967				10,577	2,883	5,098	18,298	2,593	8,497
1968				10,614	2,753	4,801	18,168	5,879	15,134
1969				12,098	1,042	4,715	17,855	3,201	16,664
1970				13,820	1,308	4,256	19,384	1,852	9,326
1971				9,619	1,670	2,791	14,080	4,632	14,395
1972				17,212	2,380	5,032	24,624	2,225	14,121
1973				16,679	726	3,860	21,625	3,348	11,293
1974				14,655	2,261	5,203	22,119	2,629	10,357
1975				8,311	2,223	8,177	18,719	2,826	9,484
								3,667	11,181
								4,321	10,893
								5,412	13,610

[1] Preliminary.
[2] Gross weight.

U.S. IMPORTS FOR CONSUMPTION OF ANTIMONY ORE

[General imports of antimony ore metal contents by countries, as reported by the U.S. Bureau of Mines, in short tons]

	1970	1971	1972	1973	1974	1975[1]
Bolivia	2,162	1,593	2,562	3,662	2,669	1,539
Chile	42	311	1,722	1,590	2,283	
Mexico	3,666	3,314	2,217	2,088	1,629	2,218
Republic of South Africa	6,239	3,826	10,160	6,446	4,739	1,792
Turkey				1,339	201	
Other countries	1,711	1,575	551	1,554	3,134	2,770
Total	13,820	9,619	17,212	16,679	14,655	8,319

[1] Preliminary.

TABLE 3.—STOCKS OF PRIMARY ANTIMONY IN THE UNITED STATES

[Industry stocks of primary antimony in the United States as of Dec. 31; compiled by the U.S. Bureau of Mines, in short tons, antimony content][1]

	1969	1970	1971	1972	1973	1974	1975[1]
Ore and concentrate	2,227	2,973	3,582	3,562	5,585	6,276	8,364
Metal	1,273	1,598	1,367	1,332	1,540	809	1,768
Oxide	2,053	2,932	2,697	3,179	2,074	3,732	4,099
Sulfide	108	39	22	182	31	35	33
Residues and slags	307	948	647	176	526	549	788
Antimonial lead[2]	371	351	322	191	322	294	537
Total	6,339	8,847	8,637	8,622	10,078	11,694	15,589

[1] Preliminary.
[2] Inventories from primary sources at primary lead refineries only.

Senator CANNON. In your statement, you refer to antimony units. Does that mean a ton or what are you talking about when you say a "unit"?

Mr. FINNEY. I kept referring to antimony units because antimony in many cases is in antimonial lead form. So, it is not a pound of antimony; it is a pound of antimonial lead.

Senator CANNON. Tell us about NL Industries and your place in the overall marketplace.

Mr. FINNEY. NL Industries is the largest domestic secondary lead smelter. In that capacity, we produce a very large share of the antimonial lead used by the battery industry.

The chemical division is also in the antimony trioxide through our smelter in Laredo.

Senator CANNON. What is antimony actually? How is it produced and what is it used for?

Mr. FINNEY. It is used in the battery as hardener for the lead. Historically, it has been moving down as the percentage of the lead. Although it hardens the lead, it has a detrimental effect in that it warms the gas in the battery which in time evaporates the water and in time destroys the battery.

This is why there is a movement in the industry to take the antimony out.

Senator CANNON. The current long-life batteries that we are going to now, how are they different from the old batteries?

Mr. FINNEY. There are two different versions.

One of the versions has no antimony at all. It is a calcium lead alloy. That is the main ingredient. There is also a low maintenance alloy which contains less antimony than usual plus some additional metal which increases the life of the battery and also reduces the gas within the battery so that it becomes a low-maintenance battery.

Senator CANNON. Do those do away with the so-called acid in the battery?

Mr. FINNEY. No; the acid is still in the battery.

Senator CANNON. The acid is still there?

Mr. FINNEY. Yes, sir.

Senator CANNON. You refer to the antimony trioxide.

What is that?

Mr. FINNEY. That is a chemical that they use in plastic, ceramics and fabrics to retard the flame. It is a fire-retardant material.

Senator CANNON. What is the biggest usage? Is the biggest usage actually in the battery?

Mr. FINNEY. Of antimony?

Senator CANNON. Yes.

Mr. FINNEY. By far.

Senator CANNON. What is the biggest user of trioxide?

Mr. FINNEY. I am not sure but I believe it is the automotive industry.

Senator CANNON. Now, this bill proposes a disposal of 10,000 tons. How fast do you think that material could be sold?

Mr. FINNEY. It is difficult to say. I would think with the condition of the antimony market right now, which is in a considerable surplus situation, it would take anywhere from 5 to 10 years, depending on the development of the flame retardants.

Senator CANNON. What is the actual price at the present time? What would you anticipate the price to be?

Mr. FINNEY. The domestic price today is $1.60 delivered. The international price is $1.75.

Senator CANNON. Why is the international price higher than the domestic? Aren't they importing it and competing actively?

Mr. FINNEY. Right at this moment, there are few imports coming into the United States in antimony. When you quote an antimony price, of course, you have to remember that you are quoting pure antimony, which is 99.5 or 99.6.

We have a smelter in Laredo. We publish a $1.60 price.

The international market, which has to do with China and some of these other countries, has a higher price of $1.75. There is very little of that $1.75 material entering the United States.

Senator CANNON. Does the industry uniformly support this disposal?

Mr. FINNEY. To the best of my knowledge.

Senator CANNON. Do you know anyone who is opposed to it?

Mr. FINNEY. No.

Senator CANNON. Thank you very much, Mr. Finney.

Mr. FINNEY. Thank you, Mr. Chairman.

Senator CANNON. The next witness is Mr. Steven J. Fellman on industrial diamonds.

STATEMENT OF STEVEN J. FELLMAN, WASHINGTON COUNSEL TO THE INDUSTRIAL DIAMOND ASSOCIATION OF AMERICA; ACCOMPANIED BY ROBERT E. REID, PRESIDENT, INDUSTRIAL DIAMOND ASSOCIATION; JOSEPH KLIPPER, CLIPPER DIAMOND TOOL CO., INC.; AND ROBERT SWARTZKOPF, ANCO INDUSTRIAL DIAMOND CORP.

Mr. FELLMAN. I am Steven John Fellman, counsel for the Industrial Diamond Association of America.

With me today, to my far left, is Robert Swartzkopf of the Anco Industrial Diamond Corp.; next is Joseph Klipper, president of Clipper Diamond Tool Co., Inc.; and to my right is Robert E. Reid, president of the Engis Corp., and also president of the Industrial Diamond Association.

We are very pleased to have this opportunity to appear before this subcommittee to discuss the disposal of the industrial diamonds still in the national stockpile.

GSA has requested blanket authority to dispose of 8.5 million carats of industrial diamond stones.

The Industrial Diamond Association of America, which speaks for the entire industrial diamond industry in the United States, is in favor of GSA selling industrial diamonds as there is somewhat of a shortage. But we believe this committee should not grant GSA the blanket authority requested.

With your permission, I will deviate from my prepared statement and get right to the heart of the issue.

Several years ago, industry and GSA appeared before you and agreed to a formula that would permit a non-disruptive sale of industrial diamond stones from the stockpile. The formula agreed upon couched the sale in terms of 600,000 carats a year.

GSA, in a statement filed before this committee now wants to sell 8.5 million carats of industrial diamonds in 1 year.

Since our last appearance before this committee, there has been no substantial increase in the demand for industrial diamonds, yet GSA now says that they can go from a 600,000 carat a year sale to an 8.5 million carat sale in 1 year and not cause disruption. We frankly think that this is economic craziness.

Domestic consumption of industrial diamond stones, according to the Department of Commerce figures, is less than 6 million carats per year, and yet GSA wants to sell in 1 year more industrial diamond stones than the entire U.S. industry can consume, and they state that is not disruptive.

Senator CANNON. Have you conferred with GSA on that? Do they give an explanation?

Mr. FELLMAN. We met with GSA several months ago concerning this very legislative proposal. At that time, they advised us that they would meet with us prior to this hearing and let us know what their position was and how they could justify it.

We got notice of this hearing some time last week. We never have been contacted by GSA with regard to their position.

Frankly, we know what the U.S. requirements are and can only anticipate that the demand for this kind of diamond stone is behind the Iron Curtain, which we will speak to in a moment.

A result of the last session of this committee concerning industrial diamond disposal was the adoption of legislative history which provided that in the event that GSA wanted to sell more than the 600,000 carats a year, a meeting between GSA and industry would be called to determine if a position agreeable to both sides could be reached.

At one such meeting industry agreed to a larger sale of 1 million carats and such a sale was made. The sale was made on an open bid basis. All interested persons, whether they be domestic companies, foreign corporations, in fact anyone who wanted to look at the goods, were permitted to participate and the highest bidder won. He paid cash and took the diamonds.

Last year GSA added a new wrinkle, which we want to bring to the attention of the committee, which has really caused tremendous problems in this industry.

GSA met and announced that there was going to be some negotiated sales to a foreign government. They advised us that the State Department and Secretary Kissinger, as part of the Mid East negotiations, had made an agreement with the Israeli Government permitting the Israeli Government to buy industrial diamond stones from the stockpile on a credit, rather than on a cash basis, and that the Israelis would be permitted to buy the cream of the stockpile.

We met with GSA and we argued that the Israelis were going to take the cream of the crop, the highest-priced stones, from the stockpile. We were assured by GSA that this would not occur. We showed GSA statistics indicating that the average price at the last industry sale was about $10 a carat. We argued that the Israelis would prob-

ably want $35 or $40 material. GSA said this would not occur and that they would get the same diamonds that industry got.

According to GSA's own figures, the Israelis have been buying very expensive material, the last lot sold to them averaged $35 a carat.

Senator CANNON. Nobody else had a chance to bid on it?

Mr. FELLMAN. Not only did no one else have a chance to bid on it, but we, on behalf of the Industrial Diamond Association, met with GSA. We asked for the right to look at the goods that the Israelis were buying, just look at them. We were told we couldn't see what they were buying. We have that in writing from General Bray.

Senator CANNON. I wish you could give me a copy.

Mr. FELLMAN. In fact, I have that with me and I will leave that with the committee staff.

[The information follows:]

GENERAL SERVICES ADMINISTRATION,
FEDERAL PREPAREDNESS AGENCY,
Washington, D.C., April 28, 1976.

Mr. STEVEN J. FELLMAN,
Counihan, Casey & Loomis,
Washington, D.C.

DEAR MR. FELLMAN: I wish to thank you and the other members of the Industrial Diamond Association who were present at our meeting of April 19 for the opportunity this provided me to become acquainted with your views regarding stockpile disposal policies for industrial diamonds.

During the course of the meeting, I indicated that I would take under advisement your request that the IDA be permitted to inspect the goods to be sold to the Government of Israel for the remaining 150,000 carats balance of the agreement.

I am advised that the procedure you propose is without precedent in any other material disposal program. I regret to say that after careful consideration of your request, I am unable to accede although I understand the reasons for your concern.

Sincerely,

LESLIE W. BRAY, Jr.,
Director.

Mr. FELLMAN. Senator, we are American—taxpaying businessmen, and if any industry is pro-Israel the diamond industry is that industry. But, at the same time, we feel that the Government has an obligation to give us at least an equal break.

This morning, we received a copy of GSA's statement to be delivered later today. In that statement, it says that certain members of an organization of U.S. industrial diamond dealers and processors may be expected to oppose the disposal on the grounds that the disposal is too large and, argue that, U.S. industry should be given preferential treatment.

We stand before you today and ask that we have the opportunity to submit, open bid, and pay cash if successful.

Senator CANNON. Have you ever asked for preferential treatment?

Mr. FELLMAN. No, sir.

Senator CANNON. Are you asking for preferential treatment now?

Mr. FELLMAN. No, sir.

What we are asking for is an open opportunity to bid.

Senator CANNON. How much do they have authority to dispose of now?

Mr. FELLMAN. They have no more authority.

Senator CANNON. They have disposed of everything they have authority for?

Mr. FELLMAN. Everything that they have.

The problem is that the contract that they executed with the Israelis not only covers the remaining balance that they had time but also mentions future goods. We have talked to GSA and have been advised that the Israelis are contemplating future purchases.

GSA said that this sale to the Israelis benefitted the Israeli economy because the Israelis further processed the diamond stones and obtained an added value.

We told them however some of our members had been in Belgium, 85 percent of the first lot GSA sold to the Israelis, in the same form, in the hands of a Belgium dealer. There was obviously added value.

Senator CANNON. So it was just simply a resale?

Mr. FELLMAN. A resale.

GSA said that they would investigate and did so. They gave us a copy of a letter from the Belgium dealer which I have. The letter says, basically:

"I haven't bought anything in the same boxes that GSA sold them," note the phrase in the same boxes."

[The information follows:]

PERIKAANSTRAT,
Antwerpen, Belgium, April 25, 1976.

SYNDIAM,
Diamond Exchange Building,
Ramat Gan, Israel,

DEAR MR GOLDFINGER: In accordance with your request and to clarify the matter I herewith attest to the fact that we have never purchased from you any original unassorted boxes of G.S.A. goods.

Very best regards,

M. KNOBLAUCH, *CADDI.*

Well, I think what happened is obvious.

Now, we live in a democratic society. We support the free enterprise system. We want to buy a reasonable amount of goods from the stockpile. We want to pay cash for what we buy. We want to bid on an open basis. We want everyone to have an equal chance to compete. We strongly oppose secret sales especially on discriminatory terms and especially to foreign sources. We also oppose the fact that GSA won't even allow us to look at the goods sold to foreign governments out of our stockpile.

Senator Cannon, we are not the enemy. We are a small industry without much clout. We are forced to buy our materials from an overseas cartel. There is no source of diamonds in this country. Diamonds are mined in African countries that are economically and politically unfriendly and unstable.

Now, GSA wants to sell off this vitally needed commodity. Frankly, we know the international market and believe that there is great demand for industrial diamonds behind the Iron Curtain. For GSA to be able to say in testimony that they think the world market can absorb 8.5 million carats without disruption in 1 year, we think means that those goods will be siphoned off to countries behind the Iron Curtain.

We have presented to the subcommittee a proposed amendment to the bill. This amendment forbids sale to foreign governments and limits sales to 10 percent of domestic consumption. The domestic

consumption figures to be determined by the Department of Commerce. We feel that this is a fair position. It was presented to the Industrial Diamond Association membership at its last meeting and approved unanimously.

We would urge therefore that GSA not be given the authority to move ahead as they have requested.

Thank you.

[The prepared statement of Mr. Fellman follows:]

PREPARED STATEMENT OF STEVEN JOHN FELLMAN

My name is Steven John Fellman and I am Washington counsel to the Industrial Diamond Association of America.

The Industrial Diamond Association of America is a trade association of importer-dealers, toolmakers, wheelmakers, and distributors. Members of the Industrial Diamond Association deal in unset industrial diamonds and in many cases manufacture products containing industrial diamonds. These products are used by industry to grind, drill, cut, and bore the hardest of materials. Industrial diamonds are essential in machining the high grade metals necessary for high technology, aerospace, and other industrial applications. They are essential in drilling for the petrochemical industry and they are needed for purposes of polishing the whole gamut of the industrial spectrum.

Members of our Association have given careful consideration to S. 3347, the bill giving authority to G.S.A. to dispose of approximately eight million five hundred thousand carats of industrial stones now held in national stockpile.

I have been asked by the Industrial Diamond Association to appear before you today and express the viewpoint of our Association with regard to this legislation.

I have with me today Robert E. Reid, President of the Industrial Diamond Association, Joseph Klipper of Clipper Diamond Tool Co., Inc., New York, N.Y., a manufacturer of tools utilizing diamond materials, and Robert Swartzkopf of the Anco Industrial Diamond Corp., New York, N.Y., a dealer in industrial diamonds.

In prior years members of our industry have had the opportunity to appear before this Committee with reference to disposal legislation dealing with industrial diamond material. I wish to make it clear that our Association is in favor of an orderly disposal program. We also agree with the intent of the proposed legislation that the time and method of disposition should be fixed with regard to the protection of the United States against avoidable loss and the protection of producers, processors and consumers against avoidable disruption of their usual markets. We are concerned, however, with the broad language of the bill and would request that the language of the bill contain specifics concerning the method of disposal. In this regard we would urge the Committee to adopt the amended version which we have proposed which provides that:

(a) The disposition of industrial diamond stones now held in the national stockpile shall be limited to no more than ten (10) percent of the annual domestic consumption; such consumption to be determined annually by a Department of Commerce survey.

(b) No sales of industrial diamond stones be made to any foreign governments.

If the Committee is not disposed to accept Section (b) of our proposed amendment we would urge the following alternative amendment: (b) In all sales to foreign governments, domestic industrial diamond representatives will be given the opportunity to inspect, bid upon, and if the successful bidder, purchase the goods prior to their sale to a foreign government.

If the Committee does not see fit to adopt our amended proposal, we would request that the legislative history contain provisions which will set forth the disposal procedures to be utilized by G.S.A., which the members of the Industrial Diamond Association would be glad to assist the Committee in formalizing.

In the past, however, industry dealings with G.S.A. have been less than satisfactory. In the past two years G.S.A. has been selling large quantities of the highest quality industrial stones to Israel for political purposes. Members of the industry did object to the sale of the stones to Israel but were told that such sales were made at the direction of the Secretary of State. Industry requested

G.S.A. to conduct the sale in a fair and equitable way which would not harm the American industrial diamond industry.

The industry requests and suggestions to G.S.A. fell upon deaf ears. Israel was permitted to purchase 300,000 carats of industrial stones in quarterly increments beginning in May of 1975. Additionally, Israel was permitted to purchase the highest quality stones from the government stockpile and American members of the industry were not permitted to inspect or examine the goods prior to sale and/or have an opportunity to purchase the best stones in the government stockpile.

Members of the industry are obviously very concerned about the sale of diamonds to foreign governments for political purposes because of the obvious effect that such a disposal will have on the market.

Our Association met in the Spring of 1976 and unanimously agreed that strong opposition would be made against any future sales from the stockpile for political purposes and further recommends that all sales be made on a fair, equal, and non-discriminatory basis. We urge this Committee to consider the G.S.A. procedures for all disposal sales, and particularly sales to foreign governments. We believe that in all disposal sales, that American industrial diamond representatives should be permitted the right to examine goods prior to sale regardless of to whom the sale is made.

Our country has no natural source of industrial diamond stones. The only significant free world source of industrial diamond stones is found on the continent of Africa. The countries involved in mining industrial diamond stones are economically and politically unstable and have shown a growing unfriendliness towards the United States.

Our nation's consumption of industrial diamond stones varies in direct relation to economic productivity. The recent recession caused a slowdown in the consumption of industrial diamond stones, but with the economic upsurge industrial diamond consumption has increased and has made industrial diamonds more valuable to our economy.

Although it has been possible to synthesize industrial diamond bort, our technology does not permit us to synthesize industrial diamond stones on an economic basis, and we are thus dependent upon foreign sources of supply for this essential commodity.

The essentiality of this commodity has been continuously recognized by the government.

The industrial diamond industry in this country is not large. It is estimated that annual consumption of industrial diamond stones is less than 6,000,000 carats per year at present. It is, therefore, necessary that government recognize that in any dealings with this industry extreme care must be taken not to unduly disrupt this small but vital segment of our economy.

In the past, the Industrial Diamond Association of America has approved the concept of sales of industrial diamond stones from the stockpile where such sales do not exceed 10% of the free world consumption annually. Thus, based on Department of Commerce surveys, industry has recognized that the sale of industrial diamond stones at a level not to exceed 600,000 carats a year by G.S.A. would not be disruptive.

Such belief was based on the understanding that G.S.A. would be selling in a manner that was open and competitive. In the past year, G.S.A. has acted contrary to this belief and has sold industrial diamonds to a foreign government in a discriminatory, anticompetitive manner.

The Industrial Diamond Association, therefore, opposes providing G.S.A. with any authorization to sell industrial diamond stones above and beyond the authorization to sell an amount equal to approximately 10% of free world consumption—approximately 600,000 carats in 1975.

The Industrial Diamond Association is also of the opinion that for purposes of national defense, and in recognition of existing political conditions, a minmum of five years' requrements of industrial diamond stones should be kept in the stockpile at all times.

These positions were presented to the annual meeting of the Industrial Diamond Association of March 3, 1976, and were unanimously approved.

We would thus urge the Committee to adopt our proposed amendment to the statute as we feel that it would both provide for an orderly disposal of the government stockpile and not disrupt the industrial diamond market.

We thank you very much for the opportunity to appear before this Committee and hope that our views will be considered in finalizing the legislation.

Senator CANNON. Now, this bill would only authorize the disposal of 8 million carats.

You are saying that GSA is saying that they will dispose of it in 1 year.

Mr. FELLMAN. This is the GSA statement: "We are requesting authorization for disposal of 8.5 million carats because this is the quantity that could, we believe, be sold on a worldwide basis during a 1-year period without market disruption."

Let me read you another thing from this statement, Senator.

They comment about the fact that the U.S. industrial diamond industry will oppose it. They say:

> Considering that industrial diamonds are truly an international commodity, that appropriate safeguards will be observed to prevent undue market disruption and that processors and consumers on a worldwide basis will welcome the disposal. We believe the proposed legislation is in order.

As I read that, it says that if the world wants it and America doesn't, American industry should not be given any consideration.

Senator CANNON. Why do you fix the 10 percent figure for disposal when they have in the past sold diamonds in excess of that rate?

Did that disrupt the market before?

Mr. FELLMAN. The 10 percent figure was the figure that the industry determined would be reasonable based on the present economic situation.

There are times when the demand for industrial diamonds can increase and the prior agreement with GSA was that if such a situation arose industry would sit down with GSA and see whether or not the market could absorb more. Generally, however, we believe that 10 percent would be a reasonable figure.

I think that the good faith on the part of the industry can be seen by the fact that we did sit down in the past and did agree to increased disposal. There is definitely a need for some of this material to get out. But the material that is in the stockpile is not of a common value. Some of it is high quality material and some of it is low quality material.

To let all the high quality material go, especially to foreign sources when people in this country want this type of material, is not reasonable.

Senator CANNON. Why do you recommend a 5-year stockpile supply?

Mr. FELLMAN. We recommend a 5-year stockpile supply, first, because we have no supply of industrial diamonds in this country; second, the foreign sources of industrial diamonds are countries of questionable stability; there we need a reasonable amount here as they have been going up in value, and the need for various types of industrial diamonds changes periodically, based on technology and the fact that you have certain types of industrial diamonds in the stockpile that are not valuable today does not mean that this same type of stone will be of similar value 5 years from now.

Senator CANNON. What were the amounts of carats we authorized them to sell the last time?

Mr. FELLMAN. 600,000 carats a year.

Senator CANNON. What was the total amount?

Mr. FELLMAN. $3½ million; something like that.

Senator CANNON. You say you use about 600,000 carats a year and you think we ought to have a 5-year stockpile.

You are talking about 3 million carats.

Mr. FELLMAN. I am saying there is a consumption in this country of about 6 million carats per year. The figure varies.

Senator CANNON. You are saying the disposal rate is 600,000?

Mr. FELLMAN. Ten percent of what we consider the consumption would be, which is 600,000 carats a year.

Senator CANNON. If you are recommending a 5-year stockpile, how many carats are you recommending in a 5-year stockpile?

Mr. FELLMAN. The stockpile now contains about 20 million carats.

We think that GSA should be permitted to release 600,000 carats a year but we would not go ahead and authorize the sale of 8.5 million carats at any one time.

What we propose is that you authorize the disposal on a limited basis and then take another look at it in 3 or 4 years. The sale may be 1.8 million or 2.4 million carats. Additionally, we would oppose any sale on a secret basis to a foreign government. I think that is contrary to——

Senator CANNON. I just say I agree with you on that.

Mr. FELLMAN. I would like to mention another thing that concerns us.

When we tried to find out who really authorized the sale of diamonds to Israel, there was an aura of secrecy pervading the situation. GSA said, "That is not our responsibility; that is the State Department's responsibility. The State Department negotiated this deal; the State Department told GSA to go ahead with the deal."

We talked to the State Department. They said, "Secretary Kissinger has personal negotiations going on and we don't get involved in that."

We would like to know where we fit in.

Senator CANNON. Do you know the percent of the annual U.S. diamond business that goes into defense-related industries or defense products?

Mr. FELLMAN. I don't have that figure. I could get that for you.

[The information follows:]

Information obtained from association members indicates that 25 percent of the annual consumption of industrial diamond stones is defense related.

Senator CANNON. What do you use these diamonds for, basically?

Mr. FELLMAN. Basically, they are used for grinding and polishing metal, particularly in the aerospace industry. They are also utilized for oil drilling and other types of drilling. A large portion of our industry is involved in the manufacturing of aircraft parts. Diamonds are also used for the sawing of concrete.

Senator CANNON. Do you know of any other opposition to the disposal other than——

Mr. FELLMAN. We speak for the entire industry.

Senator CANNON. How big is the industry?

Mr. FELLMAN. It is a small industry. I would say total sales of $100 million per year. Industrial diamonds are vital as there is no present substitute for industrial diamond stones. It is a unique product, although some of the diamonds are used for polish, the small particles of what we call bort, which is like a diamond powder, can be produced synthetically. The industrial diamond stones you are talking

about today however, cannot be produced synthetically on an economic basis as the technology does not exist at this time.

Senator CANNON. Where do you do most of your buying now?

Mr. FELLMAN. There is only one seller of industrial diamonds. That is the de Beers Co. in London. They sell them in Europe and then the diamonds are resold to dealers. Our people buy either in London or through diamond dealers throughout the world.

Senator CANNON. Your price depends on the quality that you are buying?

Mr. FELLMAN. The price depends on the quality.

Senator CANNON. Do you know about what the quality is in the stockpile now? What would be the average price?

Mr. KLIPPER. They have a variety of goods but we don't know the exact proportions. There is a listing, however. But these goods have to be looked at. Although the listing might indicate die stones which are the highest quality stones. After looking at them we might determine that they are all whole die stones. So, the proportion which would be die stones might only be 50 percent although they were all listed as die stones.

Senator CANNON. What do they look like, the stockpile they have now? Are they small diamonds?

Mr. KLIPPER. They are diamonds ranging from one one-hundredth of a carat going all the way up to 8- and 9-carat stones.

Senator CANNON. Are they polished now?

Mr. KLIPPER. They are not polished. They are raw. They are just the way they were when mined. They are classified in different qualities, different sizes, different shapes.

Senator CANNON. Mr. Fellman, we will make your statement a part of the record, in full.

Mr. FELLMAN. Thank you, sir.

Senator CANNON. Do any of you other gentlemen have anything to add?

Thank you very much, gentlemen. We appreciate it.

Mr. FELLMAN. Thank you, Mr. Chairman.

Senator CANNON. With that pleasant presentation, we will now call on General Bray.

STATEMENT OF LESLIE W. BRAY, JR., DIRECTOR, FEDERAL PREPAREDNESS AGENCY; ACCOMPANIED BY LOUIS BROOKS, CHIEF, STOCKPILE DISPOSAL OFFICE, FEDERAL PREPAREDNESS AGENCY

Mr. BRAY. Mr. Chairman, good morning.

Mr. Chairman, I would like to introduce to you before I have my statement Mr. Louis Brooks, who is the chief of my stockpile disposal office, who will assist me in responding to specific questions regarding disposal matters.

I wish to thank you for the opportunity of appearing before you in support of bills authorizing the disposal of silver, tin, antimony, and diamond stone from the national and supplemental stockpiles.

During the past year, we have developed estimates of stockpile needs in a number of scenarios, using the best available data on defense and civilian requirements, on supply levels, and on additional factors such

as potential transportation losses and substitution of nonstrategic and noncritical materials.

In the most severe crisis used in current planning, which would encompass a 3-year war period, the quantities of materials under discussion today would not be required to support the U.S. industrial base.

I will talk about the silver first and then move on to the other three materals.

We are requesting authorization to dispose of approximately 118 million troy ounces of silver.

Silver has a wide application in many industries. Its chief uses are for photographic materials, contacts and conductors, sterling ware, and brazing alloys and solder.

The national stockpile now contains 139.5 million troy ounces of silver. Of this quantity, 21 million troy ounces form the current stockpile objective, which, incidentally, was published in 1973.

The remaining 118 million troy ounces are excess not only under the current objectives, but also under the most cautious available estimates of national materials requirements in time of war.

We have found that domestic production of silver supplemented by imports from Canada and Mexico is more than sufficient to cover U.S. consumption for all end uses except jewelry, sterling ware, and electroplated ware. The direct and indirect defense portion of our requirements in a national emergency could be met from domestic silver without resort to imports.

The silver in the stockpile was acquired from the Treasury Department when it was monetized at about $1.29 per troy ounce. When the silver is sold, this amount will be returned to the bullion account of the Treasury.

The market price of standard commercial silver was about $4.31 per troy ounce on August 3, 1976.

From a price standpoint, silver is a highly volatile commodity. In 1974, it reached its highest point at $6.70, and averaged about $4.71 during the year. The price declined in 1975 to an average of about $4.42 per troy ounce. For planning purposes, we project a sales price of $4.25, but the market at the time of sale will determine the final price.

In the expanded economy forecast by the fiscal year 1977 budget projections, we expect to be able to sell the entire 118 million troy ounces on a worldwide basis without market disruption. We plan to sell the silver through a series of weekly sealed bid offerings, similar to the successful program carried out by GSA on behalf of the Treasury between August 1967 and November 1970, when it sold 304.6 million troy ounces of silver for $561.4 million with no disruptive effects.

The second material is tin.

We are requesting authorization to dispose of approximately 28,000 long tons of tin from the national and supplemental stockpiles.

The chief uses of tin are for containers, transportation, industrial machinery, electrical equipment, construction, and chemical uses.

The national stockpile now contains 204,124 long tons of tin. Of this quantity, 40,500 long tons form the current official stockpile objective. An additional 3,439 long tons will be sold in the near future under existing disposal authority.

The remaining 160,000 long tons are excess not only under the current objectives, but also under the most cautious available estimates of national materials requirements in time of war. During a national emergency, the direct and indirect defense portion of our requirements would be met from domestic recovery of tin from scrap without resort to imports.

Senator CANNON. Why are you only asking authority to dispose of 28,000 tons at this time?

Mr. BRAY. Simply because of the potential domestic market disruption.

We think that is a reasonable amount in terms of market disruption during 1977.

We plan in subsequent years to come back to the committee with a reasonable request for additional authorization to sell the remaining excess.

The tin in the stockpile was acquired at an average price of about $1.08 per pound. Tin prices are highly volatile and are subject to speculative pressures on the major daily world markets in Malaysia, London and New York.

The estimated market price for standard commercial tin, as of August 2, 1976, was about $3.88 per pound. Assuming a strong economy for fiscal year 1977, we project that GSA tin sales will average at $4 per pound, but again actual market conditions at the time of sale will determine the final price.

We are requesting disposal authority for 28,000 long tons of tin because we expect that this amount could be sold without market disruption in the expanded economy forecast by the fiscal year 1977 budget projections, with a partial repetition of the shortage in supply which occurred in 1973–74. The tin will be made available as market conditions warrant.

The United States is the world's largest tin consumer, accounting for 25 percent of the world supply. Major U.S. consumers favor release of excess tin from the stockpile to insure a continuing adequate supply at reasonable prices.

The U.S. Government has submitted to the United Nations its notification of intention to proceed with ratification of the Fifth International Tin Agreement and join the International Tin Council (ITC) subject to obtaining the advice and consent of the U.S. Senate.

Senator CANNON. What is the purpose of that particular agreement?

Mr. BRAY. The purpose of the Tin Council which is composed of both producing nations and consuming nations, is to have a continuing dialog between these nations in order to maintain some reasonable limit in price fluctuation. It establishes a tin manager to maintain floor and ceiling prices. The tin manager puts tin into the market or takes it out to try to maintain some stability in the international tin market.

Senator CANNON. You are really saying it is a cartel that controls the price?

Mr. BRAY. A cartel, certainly, with respect to the producers.

But the major consuming nations of the world are also members of this Council and they also have votes and participate in the discussions of the Council with respect to what the price should be. It is an attempt at international negotiations to try to bring about some order;

otherwise, a pure producers' cartel could be an uncontrolled action completely.

The ITC is an organization of most of the tin producing and consuming countries of the world, which tries to stabilize tin prices by operating a buffer stock and using export controls.

The ITC attempts to keep tin prices within established limits, although at times it has been unable to do so. In the 1973–74 boom period, the ITC sold all of its buffer stock of about 12,000 tons while GSA sold about 40,000 tons, but still the price ceiling set by the ITC could not be maintained. The buffer stock, which contained only 2,800 tons of tin on June 30, 1976, is again in danger of depletion.

Senator CANNON. Where does that buffer stock come from?

Mr. BRAY. From the tin producing nations and held by the tin manager as a buffer stock to enter into the market in order to provide stability when the prices are going one way or the other.

Senator CANNON. Actually what he does is buy it and stockpile it?

Mr. BRAY. Yes, sir.

It is a form of stockpile called the buffer stock operated by ITC.

The International Tin Council supports GSA disposals which complement its own efforts.

The third material is antimony.

We are requesting disposal authorization for approximately 10,000 short tons of antimony.

Major uses of this material are for antimony lead, solder, type metals, and bearing metals and bearings. Major nonmetallic uses are plastic rubber products, glass, pigments, flame-proofing textiles, flame retardants, and plastics.

The national stockpile now contains 40,714 short tons of antimony. This entire quantity is excess under the current official stockpile objectives. The recent analysis of stockpile goals suggests an excess of 37,000 short tons of antimony under the most cautious estimates of national materials requirements in time of war. The 10,000 short tons of antimony would be disposed of in a manner which would avoid market disruption in the expanded economy forecast by the fiscal year 1977 budget projections.

In a national emergency, the direct and indirect defense portion of our requirements could be met from domestic recycled antimony without resort to imports. There are a number of nonstrategic and noncritical materials that can be substituted for antimony in flame-proofing, hardening of lead, and in paints, pigments, and enamels. Many substitutes also have cost advantage.

The average acquisition cost of antimony in the stockpile was 32.4 cents per pound. The market price as of August 2, 1976, for standard commercial antimony, is about $1.60 per pound. The higher purity grade sells for about $1.92 per pound.

Since the stockpile has a mix of grades, the approximate weighted sale price that we expect would be $1.68 per pound. This would vary according to market conditions.

The major U.S. producer of primary antimony has indicated no opposition to the proposed disposal. In general, consumers would favor disposal of antimony.

The fourth material is industrial diamond stones.

We are requesting authority to dispose of approximately 8.5 million carats of industrial diamond stones from the national and supplemental stockpiles. The chief industrial uses of diamond stones are in drilling bits and reaming shells, single- or multiple-point diamond tools, diamond saws, and diamond wiredrawing dies.

The national stockpiles now contain approximately 20 million carats of industrial diamond stones; under current guidance, we have a zero stockpile objective for this material.

Under the most cautious available estimates of national materials requirements in time of war, we would need to stockpile approximately 5.5 million carats of industrial diamond stones. The remaining 14.5 million carats are clear excess.

We are requesting authorization for disposal of 8.5 million carats because this is the quantity that could, we believe, be sold on a worldwide basis during a 1-year period without market disruption in the expanded economy forecast by the fiscal year 1977 budget projections.

The industrial diamond stones in the stockpile were acquired at an average cost of $11.14 per carat. In July 1975, GSA sales brought an average of $15.62 per carat on the commercial market. A subsequent sale of 300,000 carats to a foreign government brought an average of $30 per carat.

Prices of diamond stones vary widely for individual qualities. The inventory is composed of 34 various classes and the amount realized will depend, to a large extent, on the composition of grades sold and the relative market demand for each.

Certain members of an organization of U.S. industrial diamond dealers and processors may be expected to oppose the disposal on the grounds that the disposal is too large and that, in any event, the U.S. industry should be given preferential treatment.

Senator CANNON. Did you hear the testimony today?

Mr. BRAY. Yes.

Senator CANNON. Did you ever hear a request for preferential treatment?

Mr. BRAY. Not in their statement.

Considering that industrial diamonds are truly an international commodity, that appropriate safeguards will be observed to prevent undue market disruption and that processors and consumers on a worldwide basis will welcome the disposal, we believe the proposed legislation is in order.

Mr. Chairman, the administration strongly supports enactment of these four bills.

I appreciate this opportunity of appearing before you to discuss these disposal bills.

This completes my prepared statement, and I will be happy to answer any questions which you may have.

There are a couple of questions, Mr. Chairman, that you had asked earlier of witnesses that I think I could answer and save some time at this point.

The standard question you were asking on most of these commodities was the percent of the Department of Defense requirements for each of these commodities.

I can relate those figures to you very quickly.

With respect to tin, the Department of Defense requirement for the war years we are stockpiling for (war years 1978, 1979, and 1980), ranges between 15 and 18 percent of the total requirement. That is the Department of Defense portion of the total requirement that we have looked at.

With respect to antimony, again for the same 3 years, the Department of Defense portion ranges between 15 percent in 1978 to 24 percent of their requirement in 1980.

With respect to the diamond stones, again in 1978 the Department of Defense portion of the requirement in 12 percent; in 1979, it is 15 percent; it goes to 16 percent in 1980.

With respect to silver requirement, again in 1978 the Department of Defense portion of the requirement is 15 percent; it increases to 20 percent in 1979; and holds at 20 percent for 1980.

Those represent the general values of the Department of Defense portion of the requirement in these four commodities.

Senator CANNON. Thank you, General.

It seems to me that Congress is being pressured into these hearings and consideration of these bills by the administration. There is little rationale to the bills before us. They can't be related to current stockpile objectives because the current objectives are those set in 1973 by President Nixon based on a 1-year requirement that everyone connected with the stockpile business knows is not valid.

I am convinced that somewhere in the budget process someone said we need a $745 million reduction in defense outlays so let us work up some legislative proposals to sell off some stockpiles.

In fact, when I asked earlier in the year I got two different lists from GSA on Department of Defense of the materials that would be in legislative proposal for the disposal.

At this point, I will insert that exchange of correspondence in the record.

[The correspondence referred to follows:]

SUBCOMMITTEE ON NATIONAL STOCKPILES
AND NAVAL PETROLEUM RESERVES,
January 30, 1976.

General LESLIE W. BRAY,
Director, Federal Preparedness Agency,
General Services Administration,
Washington, D.C.

DEAR GENERAL BRAY: I want to thank you for stopping by my office to bring me up to date on the status of the current stockpile study.

My purpose in writing is to get your assessment of the validity of the figures appearing in the FY–77 Budget of the President regarding stockpile sales. The President's Budget states: "Realization of an estimated $870 million in stockpile receipts is dependent upon market conditions and the passage by Congress of $746 million in disposal authority for certain commodities that are in excess of current needs. Receipts from the sale of excess strategic stockpile commodities under existing disposal authority are estimated at $124 million in 1976."

I would appreciate your furnishing the following information:

1. For the $124 million in sales of commodities previously authorized for disposal, provide a breakdown by commodity of the quantities and sales value that make up the total of $124 million.

2. For the $746 million in sales that require Congressional authorization, provide a breakdown by commodity showing quantity to be disposed of and sales price.

3. What is the status of proposed legislation that would authorize the disposal of materials totalling $746 million?

4. In view of the status of the stockpile study, what is your frank assessment of the chances of any disposal legislation being presented to the Congress this session?

I realize these questions put you on the spot, but after our meeting, I'm concerned that there appears to be little chance of rational stockpile disposal legislation being considered and passed by this Congress.

I would appreciate your response to this letter by February 27, 1976, because Congress will soon be considering a Budget resolution and I think it would be most unfortunate to understate Defense Department outlay requirements by nearly $1 billion because of faulty assumptions regarding receipts from stockpile sales.

Sincerely,

HOWARD W. CANNON,
Chairman.

GENERAL SERVICES ADMINISTRATION,
FEDERAL PREPAREDNESS AGENCY,
Washington, D.C., March 3, 1976.

HON. HOWARD W. CANNON,
Chairman, Subcommittee on National Stockpile and Naval Petroleum Reserves, Committee on Armed Services, U.S. Senate, Washington, D.C.

DEAR SENATOR CANNON: It was a pleasure to brief you on the status of the stockpile study, and I look forward to future opportunities to keep you abreast of developments in this field.

I am writing to you in response to your letter of January 30 requesting further detail on the existing authorities, proposed amounts of requested disposal authority, and the commodity composition thereof as indicated in total in the President's budget.

In reference to your first question, regarding the commodities comprising the $124 million in receipts expected under existing disposal authority, I offer the following list:

Material:	*Estimated receipts (millions)*
Aluminum oxide, fused	$0.9
Asbestos, amosite	2.6
Diamond, industrial bort	5.5
Lead	12.8
Manganese, battery natural	.6
Manganese ore, chemical A	.1
Mercury	.2
Mica, muscovite film	.9
Mica, muscovite splittings	3.4
Mica, phlogopite splittings	.2
Quartz crystals	.2
Talc	.1
Thorium nitrate	.1
Tin	33.4
Tungsten ores and concentrates	58.4
Vegetable tannins	4.6
Total	124.0

Your second question concerned the composition of receipts based on new Congressional authorization. The materials and anticipated receipts shown below were drawn from a list of candidate materials clearly in excess of any reasonable stockpile objective that could be established in the immediate future. The existing official objectives are protected for silver and tin. Antimony and industrial diamond stones have no official objectives.

Materials requiring new legislation:	*Estimated receipts (millions)*
Antimony	$20.0
Diamond, industrial stone	126.1
Silver	349.3
Tin	250.6
Total	746.0

The third question you asked concerned the status of the proposed legislation for the disposal of $746 million. Disposal legislation presently is being drafted for antimony, industrial diamond stones, silver, and tin and will be transmitted to the Congress in the immediate future.

The fourth question was directed toward eliciting my opinion regarding the chances of disposal legislation being presented to Congress this session. The stockpile legislation currently being drafted will, in my view, be a realistic proposal with a sound justification and rationale. I am hopeful that appropriate Congressional action will be taken to provide the disposal legislation requested.

I trust that this answers the questions posed in your letter. I feel it is important to mention that the figures shown in this letter should be closely guarded until released officially, to avoid disruptions of the commodity markets through speculation. I look forward to continued opportunities to work with you and other members of the Senate Subcommittee on National Stockpile and Naval Petroleum Reserves.

Sincerely,

LESLIE W. BRAY, Jr.,
Director.

Senator CANNON. I would like you to tell us what you can about the origins of these legislative proposals.

Mr. BRAY. I will be glad to, Mr. Chairman.

The fiscal year 1977 budget, of course, was prepared last year at approximately this time. You are exactly correct. The official stockpile objectives that we publish right now for all 91 materials in our stockpile were established in 1973 and, except for a minor exception, haven't been changed.

It became apparent to the Administration, based upon suggestions from Congress and other people, that last year, in August, it was time for the Administration to review the major policies determining the quantities and qualities of materials in the stockpile and therefore a major study was initiated in August of last year.

When the budget preparation time came around in the fall of last year, we in GSA and we in the Federal Preparedness Agency, particularly in operating and managing the stockpile, were most conscious of our obligation of insuring we had sufficient materials to meet our national defense and national emergency needs, but equally of our obligation to get rid of those materials that are clearly in excess of any requirement we have regardless of the budgetary impact.

It costs the U.S. taxpayer money to maintain them, store them, monitor them and inspect them and so on. We feel there is no clear rationale for continuing materials in the Government stockpiles which are in clear excess of any specific requirement.

Our problem last year was that we were right in the middle of a study to see whether a revision in our stockpile objectives was necessary. Obviously, when you are putting the budget together, certainly I am not going to sit before you and say there are no budget considerations involved in preparing the Administration's budget every year. It has to be done in order to say, are there materials which we in the Administration and we in our Government should be disposing of?

We in GSA were asked:

From the basis of the studies you have done so far, realizing that you are not through with them, are there some materials which are clearly going to be in excess of any reasonable policy that anyone would come up with?

Incidentally, about that time, Mr. Chairman, we had proposed, I think it was, six or seven different alternatives with which we would look at the size of the stockpile. In those particular alternatives, there

were some materials that clearly were in excess of any of those particular alternatives. Now, those materials were more than just these four.

The question is asked: Why did we select these four? Simply as a practical approach, we didn't want to come in with an omnibus disposal bill including 10 or 12 or 15 different materials before the study was completed because we felt that it would be very difficult for the committee to understand that that was proper timing for it.

We selected these four because we felt we could defend and could present to the appropriate committees of Congress the fact that under anybody's most conservative estimate these would not be required.

These particular amounts were based upon our estimate as to what we thought could be disposed of within the year without market disruption.

As you well understand, the legislation does not, in itself, contain a time period with respect to when the sales have to be made. It is an authorization and clearly the authorizations continue until we have disposed of that amount or until it is withdrawn.

It was clearly our intention, however, in our budget preparation, that we would make an attempt to sell these amounts for some $746 million during fiscal year 1977 provided, and I want to make a very clear proviso, the law clearly states that we should not make disposals when we cannot avoid undue market disruption.

We are very sensitive to that.

We have no intention of ignoring that.

In the actual conduct of the sales at any time, it was our judgment that if we could not proceed with sales without causing undue market disruption, it would certainly be our intention not to proceed beyond that point as it has been our practice in past years.

Senator CANNON. Does the law also provide how the sales will be conducted?

Mr. BRAY. No, sir, it does not.

Senator CANNON. Based on your best estimates, if these bills are enacted what revenue would accrue by fiscal year for each commodity?

Mr. BRAY. The variables in it obviously are the market prices at the time.

[The information follows:]

Revenues expected in fiscal year 1977 from selected disposals

Material:	*Amount (in millions)*
Antimony	$33.6
Diamonds, industrial stones	126.1
Silver	[1] 349.3
Tin	250.6
Total	759.6

[1] Amount net of $1.29/troy ounce to be returned to the Department of the Treasury's bullion account.

As I think a previous witness had indicated, I am not sure in these volatile commodities in which there is a high degree of speculation, that we can tell clearly beforehand what sort of dollar value we would obtain from it. However, from a planning standpoint, our estimate,

for example, on silver was that 118 million troy ounces on silver at a price of $4.25 an ounce, of which $1.29 goes back into the bullion account of the Treasury, would leave about $349 million as the difference between our selling price and that which we have to pay back to the bullion account, would obtain about $349 million for the miscellaneous account of the Treasury.

Senator CANNON. You heard the industry representatives here testify that they thought it should not be sold at more than a million ounces a week?

Mr. BRAY. Yes, sir.

Senator CANNON. Obviously you could not dispose of 118 million ounces a year at that rate.

Mr. BRAY. We are not sure about that, Mr. Chairman.

I have some charts that we have devised.

Let me say to you we disposed in silver, in previous years, in 1968 and 1969, about 100 million troy ounces without market disruption. In previous years, we were up to 98 million in 1968 and 99 million in 1969.

Interestingly enough, we have charted our data which reflected what happened during the period of time when GSA was selling that silver. I might say that those silver sales were not out of the strategic stockpile. It was not authorization that your committee provided. They were sales that we conducted for the U.S. Treasury under a different law.

Incidentally, what we have done, Mr. Chairman, was to plot in terms of time the particular time period when we were very active selling this silver for the Treasury, say from 1967 to 1970. We plotted at first what our sales did and obviously if we were plotting in a line our sales peaked during the period 1968, 1969, and 1970.

What happened during that period of time to our sales price?

Incidentally, this is the chart on pricing.

Interestingly enough, the sales price went up during that time as one of the previous witnesses testified.

While we were selling approximately 100 million troy ounces, the price continued to increase.

What happened to our imports during this period of time where we were getting more imports in? Our imports remained fairly stable during that period of time. Similarly, our domestic production remained stable during that period of time. The thing that varied was exports.

This is the chart reflecting exports of silver during that period of time. What it reflects is that silver is an international commodity and that the silver which we were selling into the market was essentially going on an international basis and the price continued to rise during that period of time.

Now, I don't know what would happen if we were to sell 118 million troy ounces. What I am saying is that we have a precedent, we have a basis for saying the silver market appears to us in an expanding economy in 1977 to dispose of that amount.

Now, clearly, when we get into it on offering weekly sales, if it were clear to us that we were having an adverse impact and that the price was dropping, or that, second, we were affecting domestic production or other major factors, certainly we would want to back off and reconsider that and adjust our sales.

So, in answer to your question, do I know what would happen, I think the answer is no, and, yet, we do have some experience in this matter, and simply because it is an international market, highly volatile, a lot of speculation, we think there is a good chance we can sell this 118 million troy ounces in a way similar to what we did in 1968, 1969, and 1970 without any undue market disruption at all.

Senator CANNON. Can you assure this subcommittee that the disposals authorized in these bills will not reduce the stockpiles of any of these commodities to a point where national security would be jeopardized?

Mr. BRAY. Yes, sir, absolutely.

Mr. Chairman, I am prepared this morning to tell you that we have completed our major stockpile study which, incidentally, was a major interagency group with Treasury, Department of Defense, State, Commerce, Interior, OMB, ourselves, and so on, for the last year. To my knowledge, it has been the first very major overall policy review in a number of years.

We have presented the alternatives to the National Security Council and to the President and decisions have been made and new stockpile policy has been approved. This new stockpile policy is a more conservative policy. This new stockpile policy will reflect, in my judgment, a more conservative, cautious approach to stockpiling than the policy which was announced in 1973.

There are a couple of things that I would mention to you with respect to the conclusions of our study. One is, regardless of whose methodology that we use or what the alternative policy determinations are, it is clear that we have materials in the stockpile which we do not need under any conceivable circumstance.

The stockpile is an accumulation of material that was left over from World War II and Korea and so on. Similarly, and more important, there are some materials which we need for national defense which are not now in the national stockpile and our new policy will provide for correcting the composition of the stockpile in that regard.

So, in response to your question, I will state to you as Director of the Federal Preparedness Agency, the amounts of materials we have remaining in the stockpiles after the disposals of these amounts which we are requesting today would clearly be sufficient to meet our national defense and emergency needs and will in no way impair our national defense effort.

Senator CANNON. When do you propose to make your information public?

Mr. BRAY. The matter of the policy determinations behind the stockpile obviously have consistently been classified. That involves the type of war you are going to fight, where you are fighting; there are sensitive political considerations regarding imports from different countries, shipping losses and so on. Those particular features will remain classified.

The decisions we have from the National Security Council are classified. However, we will be making public very shortly what we call our new stockpile goals which will replace our current stockpile objectives.

A general description of our policy guidelines will be made public.

I can say today that our stockpile planning will now be based on a

3-year basis rather than on a first-year war which was a policy announced in 1973.

Those elements which we can make public will be made public very shortly.

Senator CANNON. What do you mean by "very shortly"?

Mr. BRAY. I would say within a week or so.

We simply got the decision in the last couple days out of the National Security Council and the President. We have not had time yet to make the public announcement.

Senator CANNON. Your statement is rather interesting as to who was in on the decisionmaking.

Why did you have OMB in on it?

Mr. BRAY. OMB simply as one of the departmental agencies which is responsible for our budgetary planning.

I might say to you I was chairman of the study effort, though. I valued their input. I think they were very useful and helpful.

In response to a question, a lot of people have produced the study that we did. It was not primarily budget-driven. There are budget considerations, obviously. It is primarily national security and other considerations for preparedness that formed the basis for our new stockpile policy.

Senator CANNON. Well, let us talk about the diamonds now.

You heard the witness for the Industrial Diamond Association who gave us a very interesting story concerning the sale of the diamonds to Israel without any opportunity for the association members to bid on them.

Would you give us your story on this?

Mr. BRAY. Yes, sir; I would like to.

I want to make one thing clear before I proceed because it refers to something Mr. Fellman said regarding our meeting which reflected that we had agreed to meet earlier.

That is not correct, from my recollection of the meeting at all.

It certainly is a correct statement that 300,000 carats of industrial diamonds were sold by negotiation rather than by sealed bid to the Government of Israel during this last year, using existing authority that we had from the Congress for the disposal of industrial diamonds.

As you mentioned earlier, the law, itself, does not specifically specify the manner in which sales or disposals will be specifically made except to avoid undue disruption of the market.

Senator CANNON. Have you ever conducted any sale in that fashion before?

Mr. BRAY. Since I am fairly new, a newcomer, let me ask Mr. Brooks if he will respond.

Mr. BROOKS. No, Mr. Chairman; in the case of diamond stones, that was the first instance of a negotiated sale of that type.

Senator CANNON. Did you have in any other stockpile items where sales were negotiated rather than by sealed bid?

Mr. BROOKS. Our rule, of course, is to seek the maximum possible competition in any disposal that we make.

There are times when competition is lacking and the end result is that a negotiation may be consummated with only one potential purchaser; yes.

Senator CANNON. You say there are times when it may be that.

Has it in the past?

Mr. BROOKS. I think so. I can't cite you a specific instance at the moment, but I feel quite certain that there have been instances of that sort; yes.

Senator CANNON. Would you do a little research and supply us some of those for the record, and then also supply us information as to whether that has ever occurred when there was competition in the marketplace?

Mr. BROOKS. Yes; we will be glad to.

[The information follows:]

No, when there was competition in the market place, GSA has sold by competitive bids or competitive negotiation.

EXAMPLES OF BILATERAL NEGOTIATED SALES AGREEMENTS FOR THE DISPOSAL OF EXCESS STOCKPILE MATERIALS

Commodity and example and/or circumstance	Date	Comment
Aluminum oxide (fuzed crude):		
A. Hardship case (1,000 short tons)	October 1975	Raw material not available and plants production and usual marketing would have reportedly been disrupted.
B. Hardship case (1,800 short tons)	April 1975	
Magnesium:		
A. 20,000,000 lb	May 1973	Material made available to new domestic producer for start-up needs.
10,400,000 lb	November 1973	
B. Hardship case (4,000,000 lb)	March 1974	Consumer could not acquire sufficient material from producer.

Senator CANNON. Do you know of any cases where there was competition in the marketplace where that occurred before?

Mr. BROOKS. No, sir; not where there is competition.

I would like to explain that point in this instance.

At the time the sale under discussion took place to the Government of Israel, there were then approximately 570,000 carats remaining in our disposal authorization. We took the position that, in spite of requests on the part of the Government of Israel to obtain larger quantities than even the remaining authority of 570,000 carats, nevertheless, in our opinion the commercial industry and particularly the industry of the United States should have an equal opportunity to share in the disposal.

For that reason, we, in effect, set aside roughly one-half of the remaining disposal authority for United States and other commercial interests and reserved the remaining one-half of the sales of the Government of Israel.

Senator CANNON. Why didn't you give them all the opportunity to bid on these products?

Mr. BROOKS. There are several reasons for that.

One is that, in dealing on a government-to-government level with a foreign government, it is traditionally not required of the purchasing government to compete directly against other commercial interests.

Senator CANNON. I thought you said you didn't know of any other cases like that that occurred before.

Mr. BROOKS. I agree; that is true.

Senator CANNON. Then how can you say that is customarily not the case? It could not be customarily the case if you never had such instances before, could it?

Mr. BROOKS. We have never had any previous instances of sales of stockpile materials on a government-to-government level with foreign governments; no, sir.

Senator CANNON. None at all before?

Mr. BROOKS. Not to my knowledge.

Senator CANNON. So you could not say this is customarily the case in this type of situation because it has never occurred before.

Mr. BRAY. Not with respect to stockpiles.

I think what he was referring to was other government-to-government negotiations.

In regard to other commodities, obviously our country has been involved in commodity agreements and discussions with many governments over the years but not with respect to the stockpile.

Senator CANNON. Throughout the whole stockpile disposal process, it has been certainly the understanding of Congress that this would be sold on a competitive basis and everybody would have the right to compete for it.

Isn't that correct?

Mr. BRAY. I will have to defer, sir.

Frankly, since I have been here, we have been at sort of an impasse with regard to disposal organization.

Senator CANNON. You are familiar with the history.

Let me ask your assistant.

Mr. BROOKS. You are correct. It is clearly our policy across the board to obtain the maximum possible competition on any stockpile disposal.

The point I am trying to address in this instance is that this disposal gives the results that one would normally achieve from a direct competitive situation, simply because the prices that were negotiated with the Government of Israel case by case, were identical to prices received commercially for sales of similar qualities.

Senator CANNON. It is quite evident from the price at which these items were bought that this was some of the better grade, was it not?

Mr. BROOKS. These were some of the highest-price qualities disposed of.

Senator CANNON. You heard the story presented here this morning that some of this was just really turned over to diamond brokers without any value added.

Have you ever checked that story out?

Mr. BROOKS. Yes, sir; we checked that story to the extent of our ability.

We received information which refutes directly the allegation that is made. We find absolutely no evidence whatsoever in support of the allegation.

Senator CANNON. Did you find any such evidence against the allegation?

Mr. BROOKS. Yes; we did.

We received information from the individuals, the people involved who handled the material, completely denying this was the case.

Senator CANNON. Did they give you the same kind of denial that they gave the industry which said we didn't buy it in the same boxes that it was sold in?

Mr. BROOKS. Essentially; yes, sir.

Senator CANNON. Does that indicate any value added simply by reboxing an item and reselling?

Mr. BROOKS. I have no information that any of this material has simply been reboxed.

The statements made to us consistently have been that all the material delivered to the Israeli Government under this sale has been re-sorted and/or reprocessed within the State of Israel, and any disposals from the State of Israel on the world market have been in forms which cannot be directly related to the goods in the form in which we originally delivered them to Israel.

Senator CANNON. Did you ever check to see if they were polished or anything of that sort, or processed?

Mr. BROOKS. If by that you mean did we ever send any persons to Israel to observe the processing; no, sir.

Senator CANNON. I did not mean that.

I asked, did you ever check to see if that had been done.

Mr. BROOKS. I am not sure what other means of checking would be available to us.

Senator CANNON. Is your answer still no, that you didn't?

That is all I want to do, is find out.

Mr. BRAY. I think the answer, Mr. Chairman, is that we did make inquiries both to the Israelis and to the people in Europe. Both of them categorically denied that they had done that. They did indicate they did do the sorting, they did do the repackaging, they did do the grading and things that we had anticipated and expected that they have done. Beyond that, there was no evidence presented to us that there was anything to the contrary, that it was carried out the way we understood and expected it would be done.

Senator CANNON. Resorting, regrading and repackaging would not constitute value added.

Mr. BRAY. My understanding is that, of course, one of the possibilities is that you can go through with skilled people and sort out some stones that, in fact, are gem quality from the industrial grouping and that if you have the skilled labor and the people to do that you can do that. That was one of the efforts that the Israelis were involved in doing.

It is more than simply a repackaging. It is a grading and sorting and diversion for gem purposes, as well as for industrial purposes.

Senator CANNON. Couldn't we have done that and made that profit ourselves rather than giving it away?

Mr. BROOKS. If I may answer that.

That, of course, becomes the industrial diamond business. There are, of course, members of the industry in the United States who perform this kind of service. They have a market which they address their product to.

The fact of the matter is that there are markets of this same type throughout the world. There are processors who provide this form of service in Israel as well as in other countries in the world.

We are looking at the total worldwide picture in assessing our disposal possibilities, not just in the United States.

Senator CANNON. Did the State Department direct the non-competitive sale of stockpiled diamonds to Israel?

Mr. BRAY. Mr. Chairman, I think it would be appropriate, of course, to try to put this in context as to what the U.S. Government and the Government of Israel were attempting to do.

The stockpile portion of it was only a portion of an overall U.S.-Israeli joint committee to try to look at their investment and their trade. It was at a time in 1975 in the aftermath of the war when Israel was isolated. They were concerned with respect to their availability of material. Obviously, we were concerned with the amount of resources that they had expended in the war.

We were involved in economic aid and assistance to them and this total program was a program which Secretary Simon and Secretary Kissinger evolved to try to develop a cooperative investment and trade program where we could assist our ally in that part of the world.

There were several features.

One of the features of it was that if we had materials which were in excess of our requirement for the stockpile and for which we had disposal authority, could we, in fact, dispose of these materials to the Israeli Government on a negotiated bid basis? There was nothing secret or sinister as it was depicted here earlier.

I think it was a normal government-to-government negotiation attempting to provide some basis and find some way that this Government could help the Government of Israel, and we found a way. It was, I think, a very useful and helpful way.

Senator CANNON. You did everything but answer my question.

Mr. BRAY. The answer to the question, did they direct that we enter into an agreement at fixed price, is "No."

Senator CANNON. I did not say a fixed price.

I asked, did the State Department direct a noncompetitive sale of stockpiled diamonds to Israel?

Mr. BROOKS. The answer to that, of course, would be "No; they did not."

Mr. BRAY. I think we would say that.

Senator CANNON. You had better take a second thought about that before you answer.

Mr. BRAY. They did not direct a noncompetitive sale.

What they worked out with us was the basis for conducting the sale of industrial diamonds to Israel. The method of the sale, the negotiation of the sale, I don't think was directed by the State Department.

Mr. BROOKS. It was quite well understood between the parties involved in the process, the Treasury Department and the State Department and others who were members of this committee, that a disposal of this type could only be arranged if it could be conducted on a negotiated basis.

There was never any misunderstanding about that.

As to their direction to GSA that it must be done on this basis and this basis alone, the answer is "No; they did not."

Senator CANNON. Let me see if I can put it another way.

The State Department instructed you to negotiate a sale with Israel of stockpiled diamonds and you did that and you sold it to them on a negotiated basis without giving the industry any opportunity to bid or even inspect the items you were selling.

Mr. BRAY. On that portion of it.

As Mr. Brooks indicated, industry had another half on which they were bidding under the normal procedure.

Senator CANNON. I am not critical of trying to help Israel. We have done that an awful lot and I have voted for it an awful lot.

But I am critical that you are not following what Congress intended to be the proper procedure for disposal of stockpiled items. I don't think Congress ever intended this sort of thing.

Mr. BRAY. It would appear to me, Mr. Chairman, and I think we were sort of around the edges a moment ago, if you were going to include Israel in a competitive sale with other people, then the efforts of our Nation to work out a joint trade and investment system that was favorable to Israel to try to help them simply could not be done.

I think the process of providing to them on a negotiated basis items out of the stockpile is the only way to have done it.

In response to your question, was it contrary to the intent of the committee in authorizing the legislation, I am sure that at the time the authorization hearings were held, there was no plan to provide disposal of any of the materials to Israel to form part of a trade assistance package to them, to help them at that time.

Senator CANNON. What you are saying is if it had been on a competitive basis, then they probably couldn't have bought because they couldn't have resold and made a profit.

Mr. BRAY. Exactly.

Senator CANNON. That is what you are saying?

Mr. BRAY. Yes, sir.

Senator CANNON. You are really saying you made it available to them at less than the market price, as I read you.

Mr. BRAY. The first part is correct. They were sold on a twofold basis of: One, that they could be available to the Government of Israel to meet their own industrial diamond requirements; and, second, resale in a worldwide market to make a profit to assist their international trade balance and all the other economic problems involved.

To answer the question as to the specific price negotiation, again it gets into the matter of the lot, of the quality, whether they were high quality or low quality.

It is true, as has been brought out here, that there were lots that were sold to the Israelis that were high quality lots, lots which undoubtedly were highly resalable on the market which enabled them to improve their trade balances and their overall economic situation.

Senator CANNON. Were these sold on a credit basis or for cash?

Mr. BRAY. You will have to fill in on the details.

Mr. BROOKS. These were sold on a basis which gave the Government of Israel the opportunity to defer payment for a period of 2 years.

However, we are fully secured by letters of credit issued by a bank in the United States for the full amount of the sale plus interest in each instance and under those credits we are in a position to convert the sales price into cash proceeds at any time short of the 2-year period if we wish.

So, it becomes then purely a financial decision on the part of the United States as to whether it wants cash immediately or is willing to let the time ride throughout the full 2-year period.

Senator CANNON. What was the amount of the sale?

Mr. BROOKS. Approximately $9 million; over 300,000 carats at an average of $30. So, approximately a $9 million sale.

Senator CANNON. Now, General, what about this 8½ million carat disposal in a year?

How can you dispose of 8½ million carats in a year? Where would you propose to dispose of them?

Mr. BRAY. As I understand it, and I will ask Mr. Brooks to assist me, we would plan on trying to dispose of 8½ million carats diamonds on the total market. That is, the domestic market, as well as foreign buyers.

We would think clearly, in view of the past history, that the Government of Israel, would clearly be a major buyer in this particular element.

Now, with respect to the Government of Israel, although we could execute the agreement this year and end up with the payment mechanisms that Mr. Brooks has described to you, there is absolutely no restriction upon our specifying to the Israelis, for example, the rate of release of these 8½ million carats back into the market.

In other words, I don't think we are suggesting, although it is not clear in our statement, that we think that 8½ million carats would and could be pumped into the market within the year.

We think we could execute sales of them during this year and we think we could schedule the release of them into the marketplace in a scheduled manner to prevent the market disruption with which we are all concerned with.

That is the mechanism that led us to indicate in our statement that we felt we could dispose of them in a manner so as to avoid undue market disruption.

I am not suggesting that the 8½ million carats that we have would, in fact, become a volatile and viable part of the total international market.

Senator CANNON. If you sold it all at one time, you would have no control over how fast it came back in the market?

Mr. BRAY. Yes; on a government-to-government basis, we can.

Senator CANNON. Have you had discussions with Israel to determine if they are interested in a substantial amount of this?

Mr. BRAY. Yes, sir. We have had discussions on an informal basis to indicate their interest in this sort of program together with the necessary limitations on the flow of the materials into the international market.

Senator CANNON. How much of this 8½ million carats do you anticipate you will sell to Israel if this disposal is carried out on a competitive basis?

Mr. BRAY. Mr. Chairman. I think, as Mr. Brooks has indicated, our search will disclose there will be times when we have to have sales on a negotiated basis even with U.S. domestic firms notwithstanding the fact that it is our intention certainly to encourage competition and get the highest price that we can from it.

Senator CANNON. How can you say that?

You have just told us the story here that indicates that you didn't do that.

Mr. BRAY. You mean government to government?

Senator CANNON. That is right.

Mr. BRAY. I agree.

I say that the government to government really is a special case, and I think Israel is a special case.

Senator CANNON. Why don't you come in with a bill to authorize the Government to extend credit and sell "x" carats of diamonds to Israel from the stockpile and get around this problem?

Mr. BRAY. I think in retrospect if we were doing it all over again it might be useful.

However, as we look at the procedure and look at the history and look at the way in which we did it, there was certainly nothing to preclude us from coming this way and telling you across the table our plan under which we would dispose of it including a large portion to the Government of Israel.

Senator CANNON. You did not tell us that before.

Mr. BRAY. That authority extended back in the 1960's.

Senator CANNON. There was nothing there that would have prohibited you from coming up to Congress and telling the Stockpile Subcommittee this was what you proposed to do and did they have any objection to it.

Mr. BRAY. I agree.

Senator CANNON. Had that been told to us, I would have said certainly I object to it.

I think in fairness to your own people with whom you deal all the time they ought to have the opportunity to look at them and arrive at a competitive price.

If the Government wanted to sell them to Israel, fine, I don't find fault with that, but at least we ought to do it aboveboard and not say to these people, you can't even come and look to see these diamonds we are selling.

Mr. BRAY. Let me say, first, I don't disagree with that at all, Mr. Chairman.

Looking back, I certainly think it would have been better for us to come up as a matter of information and say, "Look, we are using some of this disposal authority to work in an agreement with the Israelis."

I think our feeling at the time was that there was no precedent for that; it was not required and it was not really a controversial sort of issue.

In retrospect, I don't disagree with that.

With respect to the coming and looking at the diamonds, which was the point made here by the previous witness, I might ask Mr. Brooks to comment on that very quickly, our rationale for not simply saying it is feasible for people to come in and look over lots you are selling on a negotiated basis to someone else on a government-to-government basis.

Mr. BROOKS. That sort of practice, Mr. Chairman, would, in itself, constitute a precedent.

This is a practice which is not followed in the disposal of any stockpiled materials. No outside third party is ever permitted to come to a stockpile storage site and examine materials being sold to another party.

Senator CANNON. They always have the opportunity, they have had in the past, as I understand it, to come in and see what is being offered for sale.

Mr. BRAY. That which is offered for sale to them; yes, sir.

Senator CANNON. You never offered any before that had not been offered to everybody; at least that is what I understand you to say.

Mr. BROOKS. Diamonds of a similar character have been offered and were continually being offered to the commercial trade at the same time the disposals to Israel were made.

Senator CANNON. Of the same quality?

If they were, why didn't you get $30 per carat for them then?

Mr. BROOKS. We did get $30 and $40 and $50 and $60 per carat on much of the goods sold to the commercial trade, depending on the composition and the quality of the individual lots.

It just happens that the average value, considering all qualities of material sold to the commercial trade, has been less than the average value of the quality sold to the Israeli Government. In each case, qualities of the same sort sold to Israel have in the past been offered to the United States trade and have been sold to the U.S. trade and the prices at which they were sold to Israel compare very favorably to the prices at which they were sold to dealers in the United States.

Senator CANNON. Has the Government made any commitment to Israel for additional sales?

Mr. BRAY. No, sir. We obviously cannot. The authorization comes from Congress for the further disposal.

Senator CANNON. You have disposed of everything you have authority to dispose of now?

Mr. BRAY. On industrial diamonds.

Senator CANNON. Have you seen the Diamond Association legislative proposals for amendments?

Mr. BRAY. No, sir; I have not seen it.

Senator CANNON. Will you review those and give us your comments?

Mr. BRAY. Yes, sir.

[The information follows:]

COMMENTS ON INDUSTRIAL DIAMOND ASSOCIATION'S ALTERNATIVE TO H.R. 15081

The Industrial Diamond Association suggests that H.R. 15081 be amended to provide that: (a) GSA sales of diamonds be restricted to 10 percent of domestic consumption, and (b) GSA not be permitted to sell diamonds to foreign governments.

GSA believes that these measures are unduly restrictive and are not in the best interests of the United States Government. The Stock Piling Act of 1946 requires that materials be disposed of in a manner that protects the Government from avoidable loss while not disrupting usual markets of consumers and producers. Restricting sales to be a certain percentage of the domestic market may prevent GSA from taking advantage of favorable developments in international markets, and thus result in an avoidable loss to the Government. Furthermore, the "usual" market for diamonds is worldwide. The U.S. imports about six million carats of industrial diamonds annually; approximately four million carats are then re-exported after sorting and repackaging. GSA can see no reason why they should not participate in the same international markets the domestic industry does.

If the industry is concerned about GSA disrupting the usual markets, we would cite our long record of responsible disposals of a variety of materials including industrial diamosds. Safeguards are taken to insure that GSA's entry into markets is carefully timed to take advantige of favorable conditions. On the other hand, GSA gets out of markets when conditions become unfavorable.

Is summary, the suggested change to H.R. 15081 puts the Government at a considerable disadvantage in the international market, while offering no compensating advantages.

Senator CANNON. Have you reviewed the statement of the Mining Congress with respect to silver?

Mr. BRAY. Yes, sir.

Senator CANNON. Will you comment on that?

Mr. BRAY. I read it this morning, the general statement.

The specific thrust of it, Mr. Chairman, I thought was one concerning our national security and their concern that we may be disposing of materials which should best be held for national security means. They expressed some concern , of course, over the policies we announced in 1973 as being too risky.

I commented a little bit earlier on that.

I restate that our new stockpile policy has just been approved and I think there is a great deal of improvement over the 1973 policy. I think it is much more conservative. I think it does provide a greater hedge against uncertainties occurring in meeting our national defense needs.

There is one thing we did this year in our methodology, which I will explain very quickly. In past years when we were trying to compute how much of the materials we needed, we took a look at our total requirement, say for aluminum. The problem was that a ton of aluminum was counted as a ton of aluminum regardless of where it was required, whether to build an airplane or for pots and pans for housewives' kitchens and so on. Therefore, when we tried to assign values as to what sort of risk we wanted to take with respect to whether that commodity was going to be available to us in time of emergency, it was very difficult to be conservative enough to meet our defense needs, and yet not take undue risk or be too conservative with respect to the civilian needs.

In the new mechanism that we have, we divided the requirement up in three different parts: Department of Defense requirements; essential civilian; and general civilian.

We are now able to assign different risk factors to the different levels.

In answer generally to the American Mining Congress, I think our process is much improved. I think our new stockpile goals which we will establish will provide a much higher assurance that we can meet the Nation's total needs in times of emergency than we have had before.

Senator CANNON. You are, in effect, saying that stockpile requirements are going to be higher in some of these minerals than was indicated in 1973?

Mr. BRAY. Yes, sir.

Let me caution everybody that the word is getting out that our requirement for all of the 91 materials is going to go up. The answer to that is no.

What we have been able to do under what we consider a very refined methodology is to identify those that we consider critical and crucial; in many of those the requirement is going to go up.

Senator CANNON. You said there would be some new ones that would be added.

Mr. BRAY. Yes, sir; there will be some new ones added.

Senator CANNON. General, would you furnish the subcommittee with copies of all correspondence, documents, memoranda, and so forth,

pertaining to the sale to Israel of the diamonds, and I am particularly interested in any directives from the State Department in that regard.

Mr. BRAY. Yes, sir.

[The information follows:]

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
OFFICE OF PREPAREDNESS,
Washington, D.C., January 8, 1975.

Subject: Statement of Policy.

THOMAS M. THAWLEY, AN,
Special Assistant to the Administrator for Stockpile Disposal.

Attached herewith is a paper entitled "Policy Guidance for Non-Competitive Disposal of Excess Stockpile Materials to Foreign Governments." This will clarify existing policy with respect to disposal of materials excess to stockpile requirements of the U.S. Government to foreign governments. This statement of policy has been coordinated with the National Security Council and the Economic Policy Board. In conjunction with such coordination, will you please advise this office of any disposals which occur as a result of implementation of this policy.

LESLIE W. BRAY, Jr., *Director.*

Attachment.

POLICY GUIDANCE FOR NON-COMPETITIVE DISPOSAL OF EXCESS STOCKPILE MATERIALS TO FOREIGN GOVERNMENTS

Whenever the United States Government has entered into agreements or understandings with foreign governments under which the U.S. Government has agreed to principles and programs designed to expand economic cooperation between the two countries, and whenever such agreements reflect a decision to provide the opportunity for such foreign governments to acquire from stockpile inventories any materials which have been declared excess to our stockpile needs, it shall be the policy of the U.S. Government to make such material available to interested foreign governments within the following parameters:

All transactions between the U.S. Government and such foreign governments shall be based on general agreements which will set out the understandings and the mechanics of such acquisitions by foreign governments. Copies of any such agreements shall be furnished to the Director, Office of Preparedness.

All such disposals of excess stockpile materials shall be conducted with due regard to (a) avoidance of disruption of the usual markets of producers, processors, and consumers, and (b) the protection of the U.S. against avoidable loss.

Individual transactions relating to specific commodities may be negotiated on a non-competitive basis but will meet commercial criteria normally applied by the Office of Stockpile Disposal to the sale of excess stockpile materials in terms of price and other provisions at which materials are sold.

Wherever excess stockpile materials have been authorized for disposal and limitations on its disposal have been established requiring domestic consumption only, no disposals to foreign governments may be made until such programs are modified by removal of domestic consumption restrictions.

Purchases of excess stockpile materials by foreign governments are to be paid for in U.S. dollars, through direct check or money order payments as is normal in Office of Stockpile Disposal's commercial sales of such materials or through Letters of Credit on U.S. banks provided at time of execution of specific transactions against which the U.S. Government may draw for payment.

In the event credit terms are issued on any sale of excess stockpile material to a foreign government, any extension of credit shall be financed on the basis of the curret borrowing rate of the U.S. Treasury for equivalent length of the borrowing period.

JOINT STATEMENT—U.S.-ISRAEL JOINT COMMITTEE FOR INVESTMENT AND TRADE, WASHINGTON, D.C.

The U.S.-Israel Joint Committee for Investment and Trade, established during the July 1974 visit to Israel of U.S. Secretary of the Treasury William E. Simon, met in Washington, D.C. on May 12–13, 1975. The meeting was chaired jointly

by Secretary Simon and Minister of Finance Yehoshua Rabinowitz. Other senior officials of the two governments also participated. (A list of senior participants is attached.)

The meeting, which continued the dialogue established during Secretary Simon's visit to Israel in July 1974, underscored the warm and friendly rela- U.S. Delegation on the current economic situation in Israel, Israel's developtionship between the countries and helped broaden the ties between them.

During the meeting, the Israeli members of the Joint Committee briefed the ment plans and its economic forecasts. The U.S. members reviewed current economic developments in the U.S. and explained recent policy proposals aimed at achieving greater stability within the U.S. economy. Mr. Avraham Agmon, Director General of the Ministry of Finance, and Assistant Secretary of the Treasury Gerald L. Parsky briefed the Joint Committee on the work of the Subcommittees on Capital Investment, Trade, Raw Materials, and Research and Development, which had met in Washington in September 1974 and in Jerusalem in October 1974. Secretary Simon and Minister Rabinowitz expressed their satisfaction with the work of the four joint subcommittees, which served as a basis for the Committee's deliberations.

At the conclusion of the Committee's session the Minister of Finance and the Secretary of the Treasury, as co-chairman, announced their agreement on a number of principles and programs aimed at expanding economic cooperation between the two countries particularly by increasing the opportunities for trade and investment and for cooperation in research and development.

The Committee agreed that measures designed to expand cooperation between Israel and the United States are consistent with both countries' deep interest in achieving a just and lasting peace in the Middle East. The Committee felt that its deliberations and conclusions should increase and broaden the interest of U.S. private business enterprises in participating in Israel's economic development and in seeking out new opportunities to expand the economic relationship between the U.S. and Israel.

I. Economic cooperation

The Israeli members described the favorable environment for foreign investment in Israel and reaffirmed their interest in U.S. investments in Israel and in acquiring U.S. technology through U.S. business participation in industrial projects in Israel. The U.S. recognized the importance of U.S. and other foreign investment to the economic growth of Israel and pointed to a number of additional factors that could further improve the investment climate. The U.S. and Israel recognized that investment in Israel serves the common interest of the U.S. and Israel.

The Joint Business Council which the parties agreed to seek to establish will be broadly based and will be charged with enhancing the participation of U.S. business in Israel's industrial development. The Council would identify projects which appear feasible for U.S. private sector investments and joint ventures, arrange business symposia and visits in both countries, and participate with other interested parties in disseminating information on business opportunities in both countries.

The members of the Committee reaffirmed the policies of their governments to oppose restrictive trade practices or boycotts against countries friendly to either. The U.S. side noted President Ford's February 26 statement that religious or ethnic discrimination is totally contrary to the American tradition and has no place in the free commerce of the United States.

II. Treaty to avoid double taxation

Minister Rabinowitz and Secretary Simon initialed today a treaty on the avoidance ofdouble taxation. The treaty recognizes Israeli compulsory loans as creditable taxes for U.S. income tax purposes and incorporates a new rule on the treatment of Israel Government grants to U.S. investors. Both parties agreed to present the treaty for ratification, according to each country's constitutional procedures, as soon as possible. The Committee members expressed their confidence that the tax convention initialed by the Ministers would contribute toward reducing obstacles to trade and investment.

III. Encouragement of investment

The Joint Committee noted with satisfaction efforts by the U.S. Overseas Private Investment Corporation (OPIC) to promote investment ties between the two countries. The Committee noted that OPIC is prepared:

(*a*) to guarantee loans to qualified investment projects in Israel involving U.S. companies, or their subsidiaries;

(*b*) to participate, where appropriate, in financing industrial projects in Israel sponsored by U.S. investors through purchase of subordinated convertible debentures issued by such enterprises in Israel; and

(*c*) to include in its publications information about investment opportunities in Israel, incentives, economic data, and other information of interest to potential in vestors.

The U.S. also indicated its willingness to use its other resources, particularly the facilities of the Department of Commerce, to facilitate investments in Israel, and among other things to publicize within the U.S. business community information on investment opportunities in Israel, specific incentives offered by the Government of Israel, and other forms of assistance to investors available from both U.S. Government agencies and Israeli authorities. The Department of Commerce will also organize seminars in the United States and sponsor missions to Israel of prominent U.S. industrialists and businessmen. The promotion of trade missions will be a major target.

IV. Development of Trade

The Joint Committee noted the growth of trade between the two countries and emphasized the importance of a continued increase in mutual trade opportunities. The Committee agreed on the desirability of further promoting trade between the two countries by expanding the dissemination of information on bilateral trade opportunities through the programs of the U.S. Department of Commerce and the Israel Ministry of Commerce and Industry, and through national and binational organizations.

The Israeli members of the Committee noted with appreciation the assistance accorded to Israel through the use of the facilities of the Export-Import Bank. The Committee expressed its satisfaction with the harmonious relationship Eximbank has enjoyed with Israel since the founding of the State, and Israel's excellent record in meeting its obligations. The U.S. members reaffirmed Eximbank's current policy of providing finnacing for U.S. exports to Israel within the limits permitted by the Bank's resources.

The U.S. members provided clarification of Eximbank policies on other issues of particular concern to Israel. It was agreed that the facilities of the Eximbank will continue to be available and active in financing U.S. exports to Israel. The U.S. delegation noted that Eximbank is also prepared to guarantee to a U.S. lessor payments by Israeli lessees for U.S. equipment provided to Israel under leasing agreements.

The Committee welcomed passage by the U.S. Congress of the Trade Act of 1974 which provides the basis for trade negotiations between the United States and Israel in the context of the multilateral trade negotiations (MTN). The parties noted that U.S. authority under the Act allows the reduction to zero of most duties of 5 percent or less and reduction of up to 60 percent on most higher duties. Israel's negotiating authority also will be sufficient to allow the elimination or reduction of tariffs on a range of items of interest to U.S suppliers. During the Committee sessions, an exchange of views occurred on tariff and nontariff barriers which were likely to be negotiated in the MTN. The Committee discussed the provisions of the Act concerning the Generalized System of Preferences and agreed that the two governments will hold early consultations with the view of extending such preferences to Israel, consistent with the provisions of the Act.

Israel has been approved as a supplier of AID-financed commodities and services and as a supplier for off-shore procurement of Department of Defense (DOD); Israel will be informed about further opportunities.

A procedure has been developed to assist Israeli producers to sell products and spare parts to DOD suppliers, and DOD will facilitate such purchases and take measures to assure Israeli producers that they will get full and fair consideration in bidding for DOD procurement contracts within opportunities permitted under present legislation.

The Committee agreed that Government officials of both parties engaged in promotion of foreign trade, including the commercial attaches of both countries will meet from time to time to discuss in detail ways and means to generate export promotion activities of all kinds to be organized in both countries, review the effectiveness of current promotion activities and recommend new promotion programs where needed.

The Committee took note of the U.S. Department of Commerce's planned "Intellectual Assets" Trade Mission, to be composed of U.S. executives interested in commercial, Trade and technology transfer.

V. Supply and Storage of Raw Materials

The members of the Committee recognized the special circumstances that characterize Israel's trade, particularly in food and feedgrains, and the importance of assuring Israel's access to raw materials. In order to meet Israel's special needs and circumstances to the maximum extent feasible, the Department of Commerce will use its good offices as appropriate to facilitate Israeli purchases of essential raw materials from U.S. private sources. The Israeli Government will send a mission to acquaint itself with these sources, and discuss contingent plans to assure supply. The Government of Israel will submit to the U.S. Government a detailed annual plan of its grain and raw material purchases in the United States.

In the event that it becomes necessary for the USG to impose short-supply export controls, these purchase plans will enable the U.S. to give sympathetic consideration to Israel's situation and allow Israel equitable access to U.S. supplies of commodities and raw materials during the period of short supply.

The Committee noted that a procedure has been developed to provide for potential purchases by Israel directly from the excess stockpile administered by the General Services Administration (GSA).

The Committee also took note of Israel's need to expand and modernize its food and raw material storage and warehousing facilities. The Committee recognized the need to attract investment and technology for the expansion of storage facilities and recycling plants in Israel and agreed to consider ways of facilitating these activities. To this end, a U.S. technical team will visit Israel shortly for an on-site survey of Israel's existing storage facilities and will help develop a construction plan for additional facilities. An Israeli mission will also visit the United States to study U.S. storage technology.

VI. Scientific Cooperation

The committee reviewed favorably the progress achieved under the jointly funded U.S.-Israel Binational Science Foundation which had been established in 1972. Both sides agreed that the Foundation has played a useful role, and that it would be desirable to strengthen our scientific relations. It was agreed, subject to any required legislative approval, to explore means to widen the scope of operations of the foundation and strengthen its financial basis. Negotiations to this end will take place soon and the conclusions and recommendations will be submitted to the Committee at its next session.

The Committee reviewed the status of the proposed joint water desalting project, which has undergone a lengthy period of evaluation. The Committee noted that the Congress has previously authorized and appropriated up to $20 million. as the American share of the capital and initial operating costs of the project. Both sides agreed that it was now feasible to proceed with the arrangements for the design, construction and initial operation of a large-scale prototype plant and to negotiate a technical agreement subject to the necessary consultations with the Congress. A U.S. technical mission will visit Israel in the near future.

VII. Industrial Research and Development

The Committee discussed the importance of expanding industrial research and development in Israel. The United States Department of Commerce and the Israel Ministry of Commerce and Industry were designated as focal points to facilitate cooperative industrial research and development activities. These agencies will encourage direct contact between departments of the two Governments and bodies in the private sectors, such as the Industrial Research Institute and the Licensing Executive Society; will assist in defining possible cooperative ventures; and will promote the exchange of technical information between American and Israeli organizations in the science and technology field.

The Joint Committee agreed to establish a U.S.-Israel Steering Committee for Industrial Research and Development composed of representatives from interested agencies of the two Governments. This Steering Committee will outline policies and formulate priorities to enhance mutual research and development efforts with specific industrial applications.

The members of the Committee agreed that the two Governments will undertake to encourage the dissemination of information on Israel's research and development potential and capacity within professional and industrial organizations in the U.S., especially through greater exchanges of people and information between Israel and the United States.

The Joint Committee also welcomed a United States-Israel Industrial Research and Development Council in which United States representation would be from the private sector. The Council, which would include leading R&D executives, scientists and engineers, would assist in promoting closer links between United States and Israeli enterprises in the science and technology area.

The parties agreed on the desirability of developing a program to support mutually beneficial industrial research and development activities in Israel. To this end, it was agreed that the two governments would begin as early as possible discussions to formalize the program's scope and organization, and to determine the financial arrangements that the two governments would undertake in support of the program and its management.

VIII. Future Meetings

The members of the Committee decided that future meetings of the Joint Committee for Investment and Trade should take place at least once each year to review issues affecting the economic relationship between the two countries and to develop means of expanding economic cooperation between the two governments as well as between the people of both countries, including exploring the possibility of entering into appropriate, formal arrangements which will regulate the various joint activities and define broad principles of cooperation. The next meeting of the Joint Committee will be held in Jerusalem.

The Committee announced establishment of a Joint Steering Group to oversee implementation and coordination of the measures agreed upon by the Committee. The Steering Group, which will report to the co-chairmen of the Joint Committee, has also been charged with the responsibility of investigating possible new cooperative efforts and reviewing outstanding bilateral economic issues. In addition, it will undertake preparations for future meetings of the Joint Committee.

Chairman of the Israeli Delegation: Yehoshua Rabinowitz, Minister of Finance.

Chairman of the United States Delegation: William E. Simon, Secretary of Treasury.

SENIOR PARTICIPANTS—U.S.-ISRAEL JOINT COMMITTEE FOR INVESTMENT AND TRADE

United States

William E. Simon, Secretary of the Treasury, Co-chairman.
Charles W. Robinson, Under Secretary of State for Economic Affairs.
John Tabor, Under Secretary of Commerce.
Gerald L. Parsky, Assistant Secretary of the Treasury for Trade, Energy and Financial Resources Policy Coordination.
Alfred L. Atherton, Jr., Assistant Secretary of State for Near Eastern and South Asian Affairs.
Marshall T. Mays, President, Overseas Private Investment Corporation (OPIC).
Walter C. Sauer, First Vice President and Vice Chairman, Export Import Bank of the United States.

Israel

H. E. Yehoshua Rabinowitz, Minister of Finance, Co-chairman.
H. E. Simcha Dinitz, Ambassador to the United States.
Avraham Agmon, Director-General, Ministry of Finance.
Dr. Moshe Mandelbaum, Director-General, Minister of Commerce and Industry.
General (Res.) Moshe Goren, Director, Israel Investment Authority.
Ze'ev Sher, Economic Minister, Embassy of Israel.

STATE PROPERTY LAW, 5711–1951, AUTHORIZATION UNDER SECTION 6

By virtue of the powers vested in me under section 6 of the State Property Law, 5711–1951, I, Yehoshua Rabinowitz, Minister of Finance, do hereby authorize Mr. Zeev Sher, Minister (Economic Affairs) to the Israel Embassy in

the United States of America, to sign on behalf of the Government of Israel a Operating Agreement with the Government of the United States of America providing for the acquisition by the Government of Israel of raw materials in the custody of the General Services Administration, and all documents required in connection with the said Agreement.

In witness whereof I have hereunto set my hand at Jerusalem this 20th day of May, 1975.

YEHOSHUA RABINOWITZ,
Minister of Finance.

OPERATING AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF ISRAEL

1. Basis:

This Agreement implements the general understandings arrived at between the Governments of the United States and Israel through the U.S.-Israel Committee on Investment and Trade at the meetings in Jerusalem from October 30, 1974, to November 1, 1974, as expressed in the Joint Statement dated May 13, 1975.

2. Scope:

It is the policy of the United States, as expressed in the above referenced document, to make available to the Government of Israel, and through such agents as it may wish to designate to act for and on behalf of the Government of Israel, raw materials in the custody of the General Services Administration which are excess to stockpiling requirements of the United States when their disposal is authorized by law and when available for export. Such disposals will be negotiated between the parties, and the specific terms thereof will be set forth in separate subsidiary agreements for each material which will conform in general hereto.

3. Terms:

Subsidiary agreements will generally include the following provisions:

(*a*) *Quantity.* Will not exceed the current amount excess to stockpile requirements less such reservations for other U.S. commitments and requirements as may be determined necessary by GSA. At discretion of GSA, firm amounts may be committed within the limits of present legal authority and conditional commitments, subject to future Congressional authorization, may be considered for amounts not presently authorized by law.

(*b*) *Deliveries.* Will generally be f.o.b. U.S. storage location. Freight and other costs to destination must be borne by purchaser. If materials are to be delivered in series, a specific schedule over the entire period covered shall be included

(*c*) *Pricing.* To be negotiated in each instance between parties, but in any event will be set approximately equal to current market values received by GSA for similar materials. All prices will be expressed in U.S. dollars.

(*d*) *Payment.* May be by cash or acceptable Letter of Credit drawn on or confirmed by U.S. bank. If under Letter of Credit, terms of payment may extend up to two years for each incremental delivery at interest rates approximately equal to then current U.S. Treasury borrowing rate for obligations of a similar maturity.

(*e*) *Qualities and Types.* Selection of lots may ordinarily be made by the purchaser in such manner as not to produce an unreasonable imbalance in GSA's remaining inventories or to disturb its warehousing practices, and otherwise in conformance with U.S. practices. All qualities will be "as is" with no guarantee.

(*f*) *Nominees.* If a purchase is to be made by an agent nominated by the Israeli Government, its guarantees of full performance of all aspects of the agreement by the agent will be extended to the U.S.

(*g*) *Disruption.* Upon request by GSA, appropriate safeguards may be included where necessary to assure that remarketing of materials will be accomplished in such a manner as to avoid disruption of normal markets.

4. Notice

This Agreement will be administered on behalf of the Government of the United States by and notices shall be addressed to: Director, Office of Stock-

pile Disposal, General Services Administration, 2000 L Street, NW., Washington, D.C. 20036.

This Agreement will be administered on behalf of the Government of Israel and notices shall be addressed to: Economic Minister, Embassy of Israel, 850 Third Avenue, New York, N.Y. 10022.

5. *Expiration:*

This Agreement shall continue in force for a period of five years from the date thereof unless modified by mutual agreement. Either party may elect to terminate the agreement at any time by giving notice 30 days prior to the effective date thereof.

LOUIS BROOKS,
Director, Office of Stockpile Disposal,
(For the Government of the United States).

ZEEV SHER,
Economic Minister, Embassy of Israel,
(For the Government of Israel).

Contract No. GS-00-DS-(S)-54274

DIAMOND SALES AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF ISRAEL

This Agreement entered into as of the 23rd day of May 1975 by and between the United States of America, acting through the Administrator of General Services (hereinafter called the "Government"), and the Government of Israel (hereinafter called "Buyer").

WITNESSETH

Whereas, The Government and the Buyer have entered into an Operating Agreement as of the 23rd day of May 1975 setting forth the general conditions under which excess raw materials in the inventories of the Government may be made available to the Buyer; and

Whereas, the Buyer is desirous of purchasing industrial diamond stones pursuant to the terms of the Operating Agreement with the object of selling such diamond stones to Pituach Diamond Research and Development Company, a corporation wholly owned by the Government of Israel (incorporated in the State of Israel) and (hereinafter called "Pituach").

Now therefore, Subject to the provisions of paragraph 10, the Government agrees to sell Buyer and Buyer agrees to purchase industrial diamond stones in accordance with, and subject to the following terms and conditions:

SPECIAL TERMS AND CONDITIONS

1. *Term.* This agreement shall extend for a period of one year from the date of execution by the Government or the purchase by Buyer of approximately 300,000 carats of industrial diamond stones in quarterly increments of approximately 75,000 carats, whichever occurs first, at which time the parties shall jointly review the agreement and may, by mutual agreement, modify or extend the terms hereof, subject to the terms of *Article 5* of the aforementioned Operating Agreement. However, the expiration of this agreement will not affect the validity of purchase orders issued hereunder prior to such expiration or the letter of credit supporting such purchase orders.

2. *Purchase Limitation.* Until such time as the Government obtains additional legislative authority for the sale of industrial diamond stones, purchases hereunder will be limited to no more than 300,000 carats. Upon obtaining such authority, the Government will notify Buyer of the quantity which may thereafter be added to such limitation.

3. *Selection of Lots.* The Government will attempt to select lots as closely as possible to conform to Buyer's requirements, but the final determination of the composition of a lot remains with the Government. Each lot so selected will be made available for inspection by Buyer or Pituach or their authorized representatives at such time and place and under such conditions as may be determined by the Governments. Buyer, Pituach, or their duly authorized representative shall inspect such lots within fifteen (15) calendar days after notification

of the Government's readiness. Within seven (7) days after inspection and selection of the diamonds, Buyer will submit an offer to purchase such diamonds, identifying the lots selected, including quantities and unit price(s) per carat.

4. *Conditions of Purchase.* All purchases will be made in accordance with the terms and conditions of the aforementioned Operating Agreement and of this agreement. Each separate purchase will be the subject of a purchase order (copy attached). The purchase order will identify the particular lot or lots of diamond stones being purchased and the price or prices therefor. In the event of a conflict between this agreement or any purchase order or orders and the Operating Agreement, the terms and conditions of this agreement and the purchase order and orders shall govern.

5. *Payment.* Within five (5) calendar days after execution of each purchase order by the Government and written notification thereof received by the Buyer, the Buyer shall furnish an irrevocable commercial acceptance letter of credit issued or confirmed by an acceptable U.S. bank in favor of General Services Administration with terms and conditions acceptable to the Government. Such letter of credit shall be for an amount (U.S. dollars) sufficient to cover the full sales value of the industrial diamond stones covered by such purchase order and shall also include an amount (U.S. dollars) to cover interest on such full sales value for a period of 2 years from the date of execution of the purchase order by the Government as calculated below. Such letter of credit shall further provide for the Government's drafts on the letter of credit to mature at the end of two years following the date of execution by the Government of each purchase order for the full sales value of each purchase order plus the accrued interest on such actual value of diamonds delivered at an interest rate equal to the then current U.S. Treasury borrowing rate for obligations of similar maturity at date of execution of the purchase order by the Government. Such amounts shall be payable at maturity upon presentation of a draft accompanied by a document evidencing delivery of the diamonds. Such draft may be discounted by GSA at any time prior to maturity. In no event shall the letter of credit expire prior to: (*a*) the receipt of payment by the Government of the full value of the diamonds delivered plus accrued interest; or (*b*) 25 months from the date of delivery of the diamonds, whichever is earlier.

6. *Weighing, Delivery, and Removal of Property.* At the request of Buyer, weighing will be performed by the Government at the time of delivery. In the event of a variation in weight at the time of delivery, the purchase price will be adjusted upward or downward in accordance with the unit price per carat and on the basis of the weight actually delivered. If Buyer does not request weighing by the Government at the time of delivery, no adjustment for variation in weight will be made.

Hand-to-hand signature delivery shall be made to Buyer, or its duly authorized representative, within the doors of the First National City Bank, 640 Fifth Avenue, New York, New York. Buyer shall, as soon as possible but at least five (5) calendar days prior to the desired date(s) of delivery, furnish the Government the name of Buyer's duly authorized agent(s) who will acknowledge receipt at the storage location of the material hand-to-hand delivered by the Government and will furnish, prior to delivery, identification acceptable to the Government. The above information shall be addressed to General Services Administration, FSS, Stockpile Storage Division, Crystal Mall, Bldg. 2, Room 907, Washington, D.C. 20406.

7. *Consumption and Market Regulation.* Buyer certifies and agrees that the diamonds purchased hereunder, will be processed (sorted) (hereinafter called "production") in the State of Israel; that they will not be distributed in the world market in the lot composition purchased from the Government; and that any production from materials purchased hereunder will be entered into commercial channels only in a manner which will be conducive to the orderly marketing of such production in world trade and which will prevent avoidable disruption of the normal markets of producers, processors and consumers. The following measures will be implemented by Buyer in furtherance of the above:

(*a*) The provisions of this Special Term and Condition No. 7 will be made binding on any sub-contractor or purchaser who may be selected by Buyer or Pituach to process or consume the diamonds purchased hereunder or to market any production therefrom.

(*b*) Compliance with the provisions of this Special Term and Condition No. 7 by any such sub-contractor or purchaser will be guaranteed by its posting of a substantial performance bond to the Buyer or Pituach.

(*c*) Distribution of the production of diamonds purchased hereunder by Buyer or Pituach or its sub-contractor or purchaser will be at a rate per quarter consistent with the rate at which diamonds may be delivered by the Government.

(*d*) Resale of production of diamonds purchased hereunder by Buyer or Pituach or its sub-contractor or purchaser into commercial markets will at all times be made at prices reasonably in relation to but not below comparable world market price levels.

If at any time the Government believes that the aforementioned measures are not being effective, it may suggest other measures for adoption by Buyer or Pituach, or if no such measures are feasible may terminate this agreement without penalty except for payment for diamonds delivered prior thereto.

8. *Title.* Title to the material purchased hereunder shall pass to Buyer upon delivery by the Government.

9. *GSA Form 2042.* The General Terms and Conditions for the Sale of Strategic and Critical Materials (GSA Form 2042, May 1967) are incorporated herein and made a part of this agreement and shall govern to the extent that they are not modified by, or in conflict, or inconsistent with any other terms or conditions of this agreement. Conditions 1, 3, 4, 5, 10, 11, 19, and "Instructions to Bidders" are deleted.

10. *Effective Operation of the Agreement.* This agreement shall become operative when both parties have executed a purchase order or orders pursuant to this agreement, but only as to the quantity of material covered by such order or orders. The termination of the Operating Agreement shall have no effect on any purchase order or orders which have been executed by both parties to this agreement or the letter of credit supporting such purchase order or orders.

11. *Authority.* This material is authorized for disposal pursuant to the authority contained in Public Law 92–100, dated August 11, 1971.

12. *Notice:*

This Agreement will be administered on behalf of the Government of the United States by and notices shall be addressed to:

Director, Office of Stockpile Disposal
General Services Administration
2000 L Street, NW.
Washington, D.C. 20036

This Agreement will be administered on behalf of the Government of Israel and notices shall be addressed to:

Economic Minister
Embassy of Israel
850 Third Avenue
New York, N.Y. 10022

Copies of such notices shall also be addressed to:

Economic Office
Embassy of Israel
1621–22nd Street, NW.
Washington, D.C. 20008

Director General, Pituach Diamond Research & Development Company, Diamond Exchange Building, P.O.B. 3060 Ramat-Gan, Israel.

13. Contract No. GS–CO–DS–(S)–54274 is assigned to this agreement.

LOUIS BROOKS,
Director, Office of Stockpile Disposal,
(For the United States of America).

ZEEV ESHEL,
General Manager of Pituach Diamond Research and Development, Co.,
(For the Government of Israel, on behalf of the State of Israel).

ALEXANDER SHOMER,
Legal Adviser of the Ministry of Commerce and Industry.

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., June 17, 1975.

Mr. ZEEV ESHEL,
General Manager of Pituach Diamond Research and Development Company, Diamond Exchange Building, Israel.

DEAR MR. ESHEL: In accordance with Paragraph 3 "Selection of Lots" of Contract No. GS-00-DS-(S)-54274, this is to advise you that the first quarterly installment of approximately 75,000 carats of diamond stones will be ready for your inspection on July 22, 1975 in our vault at the First National City Bank, 640 Fifth Avenue, New York City, New York. We trust that this proposed date, which we prefer over the date tentatively discussed with you, is also convenient for you.

Please inform us of the full names and titles of all persons who will be present on your behalf at this time. Our representative at the viewing will be Mr. Fred T. Engelhart, Special Assistant to the Director.

As provided by the contract, copies of this notice are also being sent simultaneously to Economic Minister, Embassy of Israel and Economic Office, Embassy of Israel.

Sincerely,

LOUIS BROOKS,
Director, Office of Stockpile Disposal.

AMENDMENT NO. 1 TO CONTRACT NO. GS-00-DS-(S)-54274, DIAMOND SALES AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF ISRAEL

This amendment entered into between the United States of America, acting through the Administrator of General Services (hereinafter called the "Government"), and the Government of Israel (hereinafter called the "Buyer").

WITNESSETH

Whereas, the Government and the Buyer, on May 23, 1975, entered into a Diamond Sales Agreement (Contract No. GS-00-DS-(S)-54274), for a period of one year from the date of execution by the Government or the purchase by the Buyer of approximately 300,000 carats of industrial diamond stones in quarterly increments of approximately 75,000 carats, whichever occurs first; and

Whereas, in order to permit an orderly delivery of the fourth quarter material without disruption to the market, the Government and the Buyer have agreed to extend the agreement for a period of 60 days beyond May 23, 1976:

Now therefore, it is agreed that upon execution of this amendment by the Government and the Buyer, the agreement is amended as follows:

1. The Diamond Sales Agreement is extended for a period of 60 days beyond May 23, 1976.

Except as modified herein, all other terms and conditions of the contract shall remain unchanged.

UNITED STATES OF AMERICA,
By LOUIS BROOKS,
Acting Assistant Director, Office of Stockpile Disposal, Federal Preparedness Agency.

The GOVERNMENT OF ISRAEL, on behalf of the STATE OF ISRAEL.
By ZEEV ESHEL,
General Manager of Pituach Diamond Research & Development Co.
By ALEXANDER SHOMER,
Legal Adviser of the Ministry of Commerce and Industry.

AMENDMENT NO. 2 TO CONTRACT NO. GS-00-DS-(S)-54274, DIAMOND SALES AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES AND THE GOVERNMENT OF ISRAEL

This amendment entered into between the United States of America, acting through the Administrator of General Services (hereinafter called the "Government"), and the Government of Israel (hereinafter called the "Buyer").

WITNESSETH

Whereas, the Government and the Buyer, on May 23, 1975, entered into a Diamond Sales Agreement (Contract No. GS-00-DS-(S)-54274), for a period of one year from the date of execution by the Government or the purchase by the Buyer of approximately 300,000 carats of industrial diamond stones in quarterly increments of approximately 75,000 carats, whichever occurs first;

Whereas, by Amendment No. 1 to the Sales Agreement (Contract No. GS-00-DS-(S)-54274), the period of one year was extended through July 22, 1976; and

Whereas, in order to permit an orderly delivery of the fourth quarter material without disruption to the market, the Government and the Buyer have agreed to again extend the agreement for a period of 30 days beyond July 22, 1976:

Now therefore, it is agreed that effective July 22, 1976, the agreement is amended as follows:

1. The Diamond Sales Agreement is extended for a period of an additional 30 days to August 21, 1976.

Except as modified herein, all other terms and conditions of the contract shall remain unchanged.

JULY 8, 1975.

DIRECTOR, OFFICE OF STOCKPILE DISPOSAL,
General Services Administration,
Washington, D.C.

(Attention of Mr. Brooks).

Confirming our participation on July 22, 1975, for inspection of 75,000 carats of diamond stones as per your letter dated June 17, 1975.

Our representatives for this inspection will be: Mr. Z. Eshel, general manager of Pituach; Mr. C. Niv, senior expert of Pituach; Mr. M. Nadiv, senior expert of Pituach; Mr. J. Goldfinger, authorized representative of Pituach; Mr. A. Moskowitz on behalf of Mr. Goldfinger.

We assume that Mr. Goldfinger will be accompanied by one extra expert whose name will be advised later.

Best regards,

ZEEV ESHEL.

Message read to Mr. Engelhart on phone July 10, 1975. Copy sent same date.

TEL AVIV, ISRAEL, *July 16, 1975.*

Attention Mr. LOUIS BROOKS,
Director of Office of Stockpile Disposal,
General Services Administration, Washington, D.C.

We are pleased to advise you of the following additional people which will be coming on Tuesday the 22d July 1975.

Mr. Joseph Goldfinger, Mr. Albert Schunkopf, Mr. Simon Rapaport, valuer; Mr. Mathew Rubinstein, valuer. Mr. Albert Schunkopf is the manager of Syndiam.

Thank you very much.

Best regards.

PITUACH.

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., August 28, 1975.

Subject: Recommendation for Award—Industrial Diamond Stones Contract No. GS–00–DS–(S)–54274—Government of Israel
Special Assistant to the Administrator for Stockpile Disposal—AN

The subject contract provides for the sale of approximately 300,000 carats of industrial diamond stones in quarterly increments of approximately 75,000 carats.

Under the terms of the contract the Government has selected lots which were made available to representatives of the Government of Israel. By wire of August 22, 1975 as amended by wire of August 28, 1975, Pituach (representing the Government of Israel) offered to purchase 75,000 carats that were made available to them for inspection. A list of the 75,000 carats selected by Pituach is attached.

Based on our survey of current market conditions and our previous sales of comparable qualities of industrial diamond stones, the negotiated price of $1,500,000 represents a fair return to the Government in today's market. The minor difference of $3,750 is not material and is disregarded.

The Government of Israel has made satisfactory arrangements with the Bankleumi Trust Company, 579 5th Avenue, New York City to issue a Letter of Credit meeting the requirements of Condition 5 "Payment" of the subject Contract. We have received notification from the Bankleumi Trust Company that such a letter of credit will be issued.

It is therefore recommended that an award be made to the Government of Israel for a total of 75,000 carats of industrial diamond stones in the amount of $1,500,000.

Recommended by: F. T. Engelhart.

[Attachments].

Approved: Thomas M. Thawley, Special Assistant to the Administrator for Stockpile Disposal, AN.

Box No.	Item No.	P–19	Size	Carats	Price per carat	Total amount
317D	1	1–a–3	20–40 p.c	4,837	$12.00	$58,044.00
92B	2	1–b–2	40–80 p.c	5,823	8.00	46,584.00
43D	3	4–a–5	1.00 ct	7,790 (+1859)	24.00	186,960.00
32D	4	4–a–3	0.50 ct	3,325	19.00	63,175.00
48D	5	4 a–6	1.50 ct	7,204 (+1625)	38.00	280,956.00
241D	6	4–a–8	2.4 ct	0 (−6809)	0	0
35D	7	4–b–3	0.50 ct	5,046	9.50	47,937.00
179E	8	¾–a–5	0.75 ct	7,358	21.00	154,518.00
265B, 249D	9	6–a–2	0.50–1.00 ct	8,124 (+1625)	31.00	259,968.00
308B	10	4–c–3	0.50 ct	3,844	4.80	18,451.20
201E	11	5–a–1	0.25–1.00 ct	3,633	11.00	39,963.00
200E	12	5–b–2	1 ct and Lgr	2,340	8.50	19,890.00
249D	13	6–a–1	3 p.c. and sm	2,620	17.00	44,540.00
251D	14	6–b–2	0.50–1.00 ct	3,340	14.00	46,760.00
115D	15	7–a–2	0.50–1.00 ct	6,713 (+1700)	25.00	174,538.00
117D	16	9	3–12 p.c	3,003	20.47	61,465.80
				75,000		$1,503,750.00

Note: Average price per carat, $20.05.

PITUACH DIAMOND RESEARCH & DEVELOPMENT CO., LTD.
August 31, 1975.

GENERAL SERVICES ADMINISTRATION,
Office of Stockpile Disposal,
Washington, D.C.

DEAR MR. BROOKS: Re our telephonic conversation of August 27th, I enclose herewith a revised purchase order, signed by me.

Please send by return mail one copy signed by you.

Thanking you for your kind attention.

Truly yours,

Z. ESHEL, *Director General.*

GENERAL SERVICES ADMINISTRATION WASHINGTON, DC 20405	CONTRACT NUMBER	P.O. No.
[illegible] OF ORDER	GS-00-DS-(S)-54274	1

This purchase order is entered into by and between the United States of America, hereinafter called the "Government", represented by the Contracting Officer executing this purchase order and Pituach Diamond Research and Development Company, a corporation wholly owned by the Government of Israel and acting as agent for and on behalf of the Government of Israel, hereinafter called "Pituach". Pituach hereby agrees to purchase and the Government agrees to sell the industrial diamond stones described below in accordance with the terms and conditions specified in contract GS-00-DS-(S)-54274

ITEM	DESCRIPTION OF PROPERTY	QUANTITY (Number of units)	UNIT	UNIT PRICE	AMOUNT
	INDUSTRIAL DIAMOND STONES		Carat		
1	Drilling Stones	20-40 p.c.	4,837	-	
2	Drilling Stones	50-80 p.c.	5,823	-	
3	Tool Stones & Dressers	1.00 ct.	7,790	-	
4	Tool Stones & Dressers	0.50 ct.	3,325	-	
5	Tool Stones & Dressers	1.50 ct.	7,204	-	
6	Tool Stones & Dressers	0.50 ct.	5,046	-	
7	Tool Stones & Dressers	0.75 ct.	7,358	-	
8	Points & Elongated Stones	0.50-1.00ct.	8,124	-	
9	Tool Stones & Dressers	0.50ct.	3,844	-	
10	Shaping, Boring & Turning Tools	0.25-1.00ct.	3,633	-	
11	Shaping, Boring & Turning Tools	1.00ct.&Lgr.	2,340	-	
12	Points & Elongated Stones	3p.c.&small	2,620	-	
13	Points & Elongated Stones	0.50-1.00ct.	3,340	-	
14	Flats & Macles	0.50-1.00ct.	6,713	-	
15	Indenters	3-12 p.c.	3,003	-	
	Total Amount -				U.S. $ 1,500,000

Pituach Represents (Check appropriate boxes) U.S. $ 20.00 per carat

That he ☐ has, ☒ has not, employed or retained any company or person (other than a full-time bona fide employee working solely for the Contractor) to solicit or secure this contract, and (b) that he ☐ has, ☒ has not, paid or agreed to pay any company or person (other than a full-time bona fide employee working solely for the Contractor) any fee, commission, percentage, or brokerage fee, contingent upon or resulting from the award of this contract; and agrees to furnish information to (a) and (b) of this paragraph 3 as requested by the Contracting Officer. *(For interpretation of the representation, including the term "bona fide employee", see Code of Federal Regulations, Title 41, Part 101-45.313.)*

EXECUTION BY PITUACH	EXECUTION BY GOVERNMENT
DATE 31 August 1975	DATE SEP 8 1975
NAME OF CONTRACTOR "PITUACH"	UNITED STATES OF AMERICA
ADDRESS (Street, city, State, and ZIP code. Type or print) 3 Jabotinsky Road, Ramat Gan, ISRAEL	BY [signature] LOUIS BROOKS - Director
SIGNATURE AND TITLE OF PERSON AUTHORIZED TO SIGN THIS CONTRACT (Type or print name and title under signature) [signature] Yoav Eshel	TITLE Office of Stockpile Disposal (Contracting Officer)
	THIS CONTRACT IS AUTHORIZED BY AND NEGOTIATED PURSUANT TO THE FOLLOWING LAW: Public Law 92-108, dated August 11, 1971.

UNITED STATES OF AMERICA,
GENERAL SERVICES ADMINISTRATION,
Washington, D.C., September 8, 1976.

Hon. HOWARD W. CANNON,
Chairman, Subcommittee on National Stockpile and Naval Petroleum Reserves, Committee on Armed Services, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: A number of questions have been raised about the General Services Administration's (GSA) disposal of industrial diamond stones. Although most have been answered, our respective staffs felt it might be helpful to bring these points together in one letter.

1. The sale of diamonds to Israel was part of an overall policy of the Government to help Israel recover immediately after its most recent war. We have previously furnished the subcommittee with a copy of the U.S.-Israel Joint Statement on the matter.

2. The excess industrial diamond stones in the stockpile were obtained in a barter arrangement from Zaire in exchange for U.S. wheat under the auspices of the Agricultural Trade Adjustment and Assistance Act of 1954 (P.L. 480).

3. No foreign sources are considered in the estimates of supplies of industrial diamonds for Defense and Essential Civilian requirements during wartime; South America is considered for small supplies for meeting wartime General Civilian requirements. The continent of Africa is not considered as a source for industrial diamonds in time of war.

4. Israel paid for the stones with letters of credit fully backed by U.S. banks. The terms of these letters are that the money is to be paid in two years and GSA can demand and receive the money at any time prior to the running of the two year period. During the running of the period, GSA receives interest at the current U.S. Treasury borrowing note.

5. The amount of diamonds sold to Israel was relatively small (300,000 karats). At the same time those diamonds were sold to Israel, a roughly equal amount (270,000 karats) was sold to industry on a competitive bid basis.

6. Israel was not permitted to go through GSA's stockpile and pick the diamonds it wanted. The diamonds offered for sale were in lots selected by GSA.

7. The United States is not ignoring the profit to be made by sorting through the industrial diamonds to find stones which were classified as industrial when they were acquired but are now in demand as gems because of changing world desires. This increase in value is reflected in the increased price received by GSA whether the buyer be American industry or the government of Israel. Sorting through the millions of stones in the inventory is a laborious and lengthy process requiring many persons with expertise. If GSA were to hire the many persons necessary to do this job it would be competing with the diamond industry.

8. GSA prefers and promotes open competitive bidding. Negotiated sales of stockpile materials are not unprecedented, and indeed comprise a substantial part of stockpile sales. We recently provided the subcommittee with examples of such sales. Negotiated sales are conducted in a manner that provides a record open for inspection by the public.

9. The current world market for industrial diamonds is approximately twenty million karats per year.

10. If the pending disposal of industrial diamonds is approved by Congress, GSA will require the following provisions:

American industry will get its fair share of the offering

Any negotiated sale to Israel will contain restrictions as to the allowable release of the diamonds back into the free market

GSA will constantly monitor the diamond markets to ensure that no undue market disruption is occurring

11. GSA will inform the appropriate committees of Congress of its intention to sell these items by negotiation in advance.

Sincerely,

LESLIE W. BRAY,
Director, Federal Preparedness Agency.

FIRST ISRAEL BANK,
NOW KNOWN AS BANKLEUMI,
New York, N.Y., September 9, 1975.

GENERAL SERVICES ADMINISTRATION,
FSS, Stockpile Storage Division, Crystal Mall Building 2,
Washington, D.C.

GENTLEMEN: We hereby establish our irrevocable Letter of Credit in your favor for account of Treasury State of Israel for $1,740,000.00 which includes interest in an amount of $240,000.00.

This credit is available against presentation to us of a draft drawn on us maturing 24 months from the date of execution of purchase order No. 1 under contract No. GS-00-(S)-54274 dated September 8th, 1975, such draft mav be discounted by G.S.A. at any time prior to maturity.

In no event shall this Letter of Credit expire prior to: (a) The receipt of payment by the GSA of the full value of the diamonds delivered plus accrued interest; (b) 25 months from the date of delivery of the diamonds, whichever is earlier.

We agree that all drafts drawn under and in compliance with the terms of this credit will be duly honored by us.

This credit will expire October 30th, 1977.

Except so far as otherwise expressly stated, this credit is subject to the uniform customs and practice for commercial documentary credits (1962 revision), International Chamber of Commerce Brochure No. 222.

Very truly yours,

FIRST ISRAEL BANK AND TRUST COMPANY OF NEW YORK.

PITUACH DIAMOND RESEARCH & DEVELOPMENT CO. LTD.,
May 7, 1976.

GENERAL SERVICES ADMINISTRATION,
Office of Stockpile Disposal,
Washington, D.C.

DEAR MR. BROOKS: Re our cable of May 6th, I enclose herewith a purchase order, signed by me.

Please send by return mail one copy signed by you.

Thanking you for your kind attention.

Truly yours,

Z. ESHEL, *Director General.*

GENERAL SERVICES ADMINISTRATION WASHINGTON, DC 20405	CONTRACT NUMBER	P.O. No.
PURCHASE (ER	GS( )-DS-(S)-54274	4 Final

This purchase order is entered into by and between the United States of America, hereinafter called the "Government", represented by the Contracting Officer executing this purchase order and Pituach Diamond Research and Development Company, a corporation wholly owned by the Government of Israel and acting as agent for and on behalf of the Government of Israel, hereinafter called "Pituach". Pituach hereby agrees to purchase and the Government agrees to sell the industrial diamond stones described below in accordance with the terms and conditions specified in contract GS-00-DS-(S)-54274

ITEM	DESCRIPTION OF PROPERTY	QUANTITY (Number of units)	UNIT	UNIT PRICE	AMOUNT
	INDUSTRIAL DIAMOND STONES		Carat		
1	Tool Stones	0.25 ct.	16,000	00	
2	Tool Stones	0.50 ct.	16,000	00	
3	Tool Stones	0.75 ct.	7,737	80	
4	Tool Stones & Dressers	1.50 ct.	5,000	00	
8	Tool Stones	2.00 ct.	4,851	00	
10	Tool Stones & Dressers	1.50 ct.	10,000	00	
14	Flats	0.50-1.00ct.	8,491	30	
15	Indenters	8-12 p.c.	3,885	75	
18	Tool Stones	1.50 ct.	3,034	15	
	Total Amount				U.S. $ 2,625,153.60

Pituach Represents (Check appropriate boxes) U.S. $ 35,002

That he [ ] has, [X] has not, employed or retained any company or person (other than a full-time bona fide employee working solely for the Contractor) to solicit or secure this contract, and (b) that he [ ] has, [X] has not, paid or agreed to pay any company or person (other than a full-time bona fide employee working solely for the Contractor) any fee, commission, percentage, or brokerage fee, contingent upon or resulting from the award of this contract; and agrees to furnish information to (a) and (b) of this paragraph 3 as requested by the Contracting Officer. *(For interpretation of the representation, including the term "bona fide employee", see Code of Federal Regulations, Title 41, Part 101-45.313.)*

EXECUTION BY: PITUACH	EXECUTION BY GOVERNMENT
DATE 22nd July 1976	DATE JUL 29 1976
NAME OF CONTRACTOR PITUACH DIAMOND RESEARCH & DEVELOPMENT CO. LTD. "PITUACH"	UNITED STATES OF AMERICA
ADDRESS (Street, City, State, and ZIP code. Type or print) 3 Jabotinsky Road, Ramat Gan, ISRAEL	BY Louis Brooks
SIGNATURE AND TITLE OF PERSON AUTHORIZED TO SIGN THIS CONTRACT (Type or print name and title under signature) Zeev Eshel GENERAL DIRECTOR	TITLE LOUIS BROOKS - Acting Assistant Director for Stockpile Disposal (Contracting Officer)
	THIS CONTRACT IS AUTHORIZED BY AND NEGOTIATED PURSUANT TO THE FOLLOWING LAW: Public Law 92-108, dated August 11, 1971

PITUACH DIAMOND RESEARCH & DEVELOPMENT CO. LTD.,
July 22, 1976.

GENERAL SERVICES ADMINISTRATION,
Office of Stockpile Disposal,
Washington, D.C.

DEAR MR. BROOKS: Re our cable of July 22nd, I enclose herewith a purchase order, signed by me.

Please send by return mail one copy signed by you.

Thanking you for your kind attention.

Sincerely yours,

Z. ESHEL, *Director General.*

PURCHASE ORDER	I-00-DS-(S)-54274	3

This purchase order is entered into by and between the United States of America, hereinafter called the "Government", represented by the Contracting Officer executing this purchase order and Pituach Diamond Research and Development Company, a corporation wholly owned by the Government of Israel and acting as agent for and on behalf of the Government of Israel, hereinafter called "Pituach". Pituach hereby agrees to purchase and the Government agrees to sell the industrial diamond stones described below in accordance with the terms and conditions specified in contract GS-00-DS-(S)-

ITEM	DESCRIPTION OF PROPERTY	QUANTITY (Number of units)	UNIT	UNIT PRICE	AMOUNT
	INDUSTRIAL DIAMOND STONES		Carat		
2	Tool Stones & Dressers	1.00 ct.	14,684	75	
3	Tool Stones & Dressers	2.00-4.00cts	20,014	40	
6	Tool Stones & Dressers	4.00cts& lgr	8,804	95	
7	Flats	1.00cts& lgr	1,868	50	
8	Flats	0.50-1.00ct.	5,318	05	
9	Tool Stones & Dressers	1.00 ct.	5,500	00	
10	Flats	1.00ct.&lgr.	12,345	70	
11	Indenters	3-12 p.c.	1,704	20	
12	Tool Stones & Dressers	0.75 ct.	4,756	45	
	Total Amount -				U.S. $ 2,658,000.-

Pituach Represents (Check appropriate boxes) U.S. $ 35.44 per carat

That he ☐ has, ☒ has not, employed or retained any company or person (other than a full-time bona fide employee working solely for the Contractor) to solicit or secure this contract, and (b) that he ☐ has, ☒ has not, paid or agreed to pay any company or person (other than a full-time bona fide employee working solely for the Contractor) any fee, commission, percentage, or brokerage fee, contingent upon or resulting from the award of this contract; and agrees to furnish information to (a) and (b) of this paragraph 3 as requested by the Contracting Officer. (For interpretation of the representation, including the term "bona fide employee", see *Code of Federal Regulations, Title 41, Part 101-45.312.*)

EXECUTION BY PITUACH	EXECUTION BY GOVERNMENT
DATE 7 May 1976	DATE MAY 18 1976
NAME OF CONTRACTOR "PITUACH"	UNITED STATES OF AMERICA
ADDRESS (Street, city, State, and ZIP code. Type or print) 3 Jabotinsky Road, Ramat Gan, ISRAEL PITUACH	BY LOUIS BROOKS, Acting Assistant Director
SIGNATURE AND TITLE OF PERSON AUTHORIZED TO SIGN THIS CONTRACT (Type or print name and title under signature) Zeev Eshel GENERAL DIRECTOR	TITLE for Stockpile Disposal - FPA (Contracting Officer)
	THIS CONTRACT IS AUTHORIZED BY AND NEGOTIATED PURSUANT TO THE FOLLOWING LAW: Public Law 92-108, dated August 11, 1971

GENERAL SERVICES ADMINISTRATION
WASHINGTON, DC 20405

PURCHASE ORDER

CONTRACT NUMBER: GS-00-DS-(S)-54274

P.O. NO.: 2

This purchase order is entered into by and between the United States of America, hereinafter called the "Government", represented by the Contracting Officer executing this purchase order and Pituach Diamond Research and Development Company, a corporation wholly owned by the Government of Israel and acting as agent for and on behalf of the Government of Israel, hereinafter called "Pituach". Pituach hereby agrees to purchase and the Government agrees to sell the industrial diamond stones described below in accordance with the terms and conditions specified in contract GS-00-DS-(S)-

ITEM	DESCRIPTION OF PROPERTY	QUANTITY (Number of units)	UNIT	UNIT PRICE	AMOUNT
	INDUSTRIAL DIAMOND STONES		Carat		
1 - (A)	Tool Stones & Dressers	4.00cts.&lgr.	10,50	.-	
1 - (B)	Tool Stones & Dressers	1.50 ct.	5,00	.-	
2 - (B)	Tool Stones & Dressers	2.00 ct.	10,00	.-	
3 - (A)	Tool Stones & Dressers	2.00-4.00cts	7,50	.-	
3 - (B)	Flats	4.00ct.&lgr.	9,50	.-	
4 - (A)	Tool Stones & Dressers	2.00-4.00cts	3,00	.-	
4 - (B)	Flats	0.50-1.00ct.	9,50	.-	
5	Flats	1.00ct.&lgr.	20,00	.-	
	Total Amount -				U.S. $ 2,325,000

Each Represents (Check appropriate boxes) U.S. $ 31.00 per carat

That he [ ]has, [X] has not, employed or retained any company or person (other than a full-time bona fide employee working solely for the Contractor) to solicit or secure this contract, and (b) that he [ ]has, [X] has not, paid or agreed to pay any company or person (other than a full-time bona fide employee working solely for the Contractor) any fee, commission, percentage, or brokerage fee, contingent upon or resulting from the award of this contract; and agrees to furnish information to (a) and (b) of this warranty as requested by the Contracting Officer. *(For interpretation of the representation, including the term "bona fide employee", see Code of Federal Regulations, Title 41, Part 101-45.313.)*

EXECUTION BY PITUACH	EXECUTION BY GOVERNMENT
DATE: 19 January 1976	DATE: JAN 27 1976
NAME OF CONTRACTOR: "PITUACH"	UNITED STATES OF AMERICA
ADDRESS (Street, city, State, and ZIP code. Type or print): "Jabotinsky Road, Ramat Gan, "ISRAEL.	BY: LOUIS BROOKS - Acting Assistant Director for Stockpile Disposal - FPA
NAME AND TITLE OF PERSON AUTHORIZED TO SIGN THIS CONTRACT (Type or print name and title following signature): PITUACH DIAMOND RESEARCH & DEVELOPMENT CO. LTD "Jabotinsky Road, RAMAT GAN, Israel	TITLE: (Contracting Officer)
	THIS CONTRACT IS AUTHORIZED BY AND RECEIVABLE PURSUANT TO THE FOLLOWING LAW: Public Law 92-108, dated August 11, 1971

Senator CANNON. General Bray has a 15- or 20-minute presentation that is classified "secret" which contains new policy declarations.

I am going to have the subcommittee go into executive session now so that we can have that presentation.

[Whereupon, at 12:10 p.m., the subcommittee adjourned, to reconvene in executive session.]

BRIEFING ON MAJOR STOCKPILE REVIEW

WEDNESDAY, AUGUST 25, 1976

U.S. SENATE,
SUBCOMMITTEE ON NATURAL
STOCKPILE AND NAVAL PETROLEUM RESERVES
OF THE COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met at 12:10 p.m., pursuant to recess, in room 212, Russell Senate Office Building, Hon. Howard W. Cannon (chairman) presiding.

Present: Senator Cannon.

Also present: James C. Smith, John A. Goldsmith, George F. Travers, professional staff members; Jeanie Killgore, clerical assistant; Frank Krebs, assistant to Senator Cannon; and Ron Lehman, assistant to Senator Scott.

Senator CANNON. The subcommittee will be in order.

Mr. Bray, proceed please.

STATEMENT OF LESLIE W. BRAY, JR., DIRECTOR, FEDERAL PREPAREDNESS AGENCY, GENERAL SERVICES ADMINISTRATION

Mr. BRAY. Mr. Chairman, the major stockpile policy review, as I said, started last August. We had good representation on it. We finished what we called phase 1 last December and submitted it to the National Security Council.

What phase 1 did was take a look at the basic methodology: Are we pointing stockpile planning in the right direction? We went back to ground zero and said, how should we be doing this? We got concurrence of the National Security Council as to a basic new methodology that was suggested.

[Deleted].

There were two major conclusions that came out of the study. The first was that the stockpile had junk that we didn't need under any circumstances. More importantly, some things that we do need are not now in the stockpile. That is significant because we have not made any major acquisitions for the stockpile since 1959. Eighty-five percent of everything we have in the stockpile was acquired prior to 1959.

For all practical purposes, we have been in a disposal mode since then. What this stockpile study says to me is that we should go from a disposal mode now into an acquisition and disposal mode—a restructuring of the stockpile.

It is just as important to get the things we need and spend the money to get them as it is to dispose of the things and put the money

back into the Treasury. That is a major point and is a major change in direction.

The second point is that our present stockpile management philosophy was too rigid. For example, our current stockpile objectives were established in 1973. I am the last one to come in before you and tell you that those figures that were established in 1973 have any validity. They should have changed many times since then, since both our supply, our requirement picture, and all the factors that go into it have.

What we needed was a new, more flexible, dynamic process for managing the stockpile. In that regard, one of the things that we proposed to the President in the study was that we would establish a new stockpile planning process composed of three elements: We would have a review of the Presidential guidance, the same thing we have been going through, but on a regular basis, every 4 years or earlier.

Second, update stockpile goals on a continuing basis. Let us use data that is coming in all the time, new data, and update our data and goals so that in case you or anyone wants to ask us questions at any time on the commodities we reply on the basis of current data.

We in the Federal Preparedness Agency are going to be calling them stockpile goals, previously called stockpile objectives. We will be changing these as the data changes, still within the Presidential guidance and methodology.

More importantly, there is a new feature of the plan. We want to develop each year an annual stockpile materials plan in which we show acquisitions as well as disposals that we plan for that year. We will do it for that year based upon the national security problems and considerations of that year, the domestic political issues, and the world political issues.

For example, right now we are developing the fiscal year 1978 budget. It was our intention and it is still our intention to develop an annual material plan right now for fiscal year 1978 so that we can insert it in the President's budget so that when it is reviewed by Congress you have a clear picture not only of what our disposals would be but what sort of acquisitions we are trying to structure during that particular year.

The annual material plan is a new feature to the structure and will be a predominant feature of the system. That has been approved and we are in the process of implementing that.

We started off immediately this week because the time period is on us to develop a new annual material plan—the first one for fiscal year 1978.

[Deleted].

I said the current value of the stockpile is about $7 billion. [Deleted].

There is a portion of this stockpile inventory that can satisfy these new requirements. Of all the things we have in the stockpile, now valued at about $7 billion, only about [deleted] of them are of any use against the stockpile. The rest of them are junk.

It is really a conglomeration of material that was left over from

World War II, the Reconstruction Finance Corporation and a lot of other things.

Now, it is clear, too, that we are not going to be able to change this stockpile from that size. If that is the only useful purpose of our stockpile, how are we going to go from [deleted]. In our judgment, it cannot be done even within a 5- or 10-year period without causing undue market disruption.

We think it is going to take a long period of time, probably 15 to 20 years, to try to restructure the stockpile into the materials that would really be required.

Our point is, let us not worry too much about the ultimate value of the stockpile right now. Why? Because who can tell what will happen 15 or 20 years from now? Let us come in closer and take a 5-year look.

These show what our potential acquisitions might be for the next 5-year period. These show what our potential disposals could be for the next 5-year period simply by market disruption. If we go more than that, we think we will probably disrupt the market to an unacceptable degree.

When you take the stockpile size of 6.8, put in the acquisitions, put in the disposals, after 5 years our stockpile could actually be reduced in size a little bit, we may be down to $6 billion, but it will be a much better stockpile at $6 billion that it is now at $7 billion in terms of meeting our known requirements.

Second, back to that first chart I showed you, we will have a major policy review every 4 years, we will have an annual material plan that will, in fact, show you our rate of implementation as we proceed to try to move from where we are now toward this goal. It will have specific acquisitions and specific disposals.

[Deleted.]

What does it mean in terms of those of us who have responsibility with respect to the stockpile? It means with respect to these four commodities that the amounts we have requested for disposal are in excess of the requirements for those commodities under the new guidance [deleted] in all four of the commodities.

Let me show you how conservative we are in these factors. In stockpile planning [deleted] we separate, as I told you, the Department of Defense requirements. We do not consider any source of supply to satisfy that Department of Defense requirement outside of the United States, Mexico and Canada. We do not depend on any imports from Africa, South Asia, or anywhere else. To make up the difference between these supplies and Defense requirements we stockpile. That is really an ultra-conservative factor with regard to the Department of Defense portion of the requirement.

With regard to the general civilian portion, obviously we do plan on materials coming in in varying terms and varying degrees. So, right now with respect to these four bills, I would say to you as I did during testimony, that there are no national security implications in these four disposal bills that you have.

What about the future? I would say that we are in the process of developing an annual material plan for fiscal year 1978 that will have acquisitions as well as disposals in it. We have got to get it

through the process, get it into the President's budget, and we intend it to be in a package so that it can be clearly seen and reviewed and analyzed each year as to how we are proceeding from where we are now toward the attainment of our long-term stockpile goals.

I think that is a very broad, general, rough statement, Mr. Chairman.

If there are any specific questions, I will be glad to try to answer them.

Mr. SMITH. Why did you attempt to balance acquisitions and disposals so that somewhere down the line the taxpayers do not have to foot the bill?

Mr. BRAY. The guidance given the people in the first annual material plan is, let us not try to acquire more than we are disposing of. Let us keep it reasonably in balance. Of course, the market disruption thing will come out pretty well on that.

As you go down the road, 5 years and 10 years, due to the fact we really want to increase this size, sooner or later unless the policy is changed or unless some other major feature changes, you will get to the point of buying more than you are disposing of.

Certainly, in the near-term period, in the first year or two, we have sufficient—again, I keep calling it junk—we have sufficient junk in the stockpile to finance those most urgent materials that we need to acquire. That is a point I should have made to you.

In our acquisition plan for the first year, our attempt is to go through the materials and identify those that have the most serious national implications to them and let us get those first. Let us start putting those into the system.

[Deleted.]

The interesting point is that in our study we assigned a priority to how we should satisfy these requirements because there are imbalances. There are requirements. There are instances where our requirement is in excess of our supply.

We assign a priority year by year. We ought to satisfy the first year of our defense requirements urgently as a first requirement.

Second, we go to the second year of defense.

Next we may want to jump to the first year of essential civilian.

That priority was established in our study. It gives us a good guide when we are developing an acquisition or disposal plan that says here is the way we should be guided toward buying first those things we need most for our national security requirements.

Mr. SMITH. You mentioned the other day there might be a supplemental acquisition request to come to Congress this year.

Is that going to come to fruition?

Mr. BRAY. It is under development.

Obviously, at this particular point before it is processed I can't make a commitment to you, and I wouldn't, that there will be a supplemental.

I will confirm to you that we are developing a request of that nature. I want to try to finish it this week. We are working on it urgently. Obviously, the same thing holds true.

What we have tried to do is pick out and say, are there some things that we really need in national defense that have us naked and

that we ought to cover just as soon as we possibly can? If there are, those are the things we ought to have in the 1977 supplemental. If they are not of that nature, you wait a year and a half or so and put them in the 1978 budget.

That is the way we will work the first annual material plan.

Senator CANNON. Thank you very much.

Mr. BRAY. Thank you, sir.

[Whereupon, at 12:35 p.m., the committee adjourned, subject to the call of the Chair.]

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