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DOCKPILE COMMODITY LEGISLATION DOCUMENTS

GOVERNMENT

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BEFORE THE

SUBCOMMITTEE ON

MILITARY CONSTRUCTION AND STOCKPILES

OF THE

COMMITTEE ON ARMED SERVICES

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 27

Tin

TO AUTHORIZE THE ADMINISTRATOR OF GENERAL SERVICES TO DISPOSE OF THIRTY-FIVE THOUSAND LONG TONS OF TIN IN THE NATIONAL AND SUPPLEMENTAL STOCKPILES, AND TO PROVIDE FOR THE DEPOSIT OF MONEYS RECEIVED FROM THE SALE OF SUCH TIN

H.R. 595

TO AUTHORIZE THE ADMINISTRATOR OF GENERAL SERVICES TO DISPOSE OF THIRTY-FIVE THOUSAND LONG TONS OF TIN IN THE NATIONAL AND SUPPLEMENTAL STOCKPILES, AND TO PROVIDE FOR THE DEPOSIT OF MONEYS RECEIVED FROM THE SALE OF SUCH TIN, AND FOR OTHER PURPOSES

S. 1397

AUTHORIZE THE DISPOSAL OF THREE MATERIALS FROM THE NATIONAL AND SUPPLEMENTAL STOCKPILES

JULY 10, 1979



Printed for the use of the Committee on Armed Services

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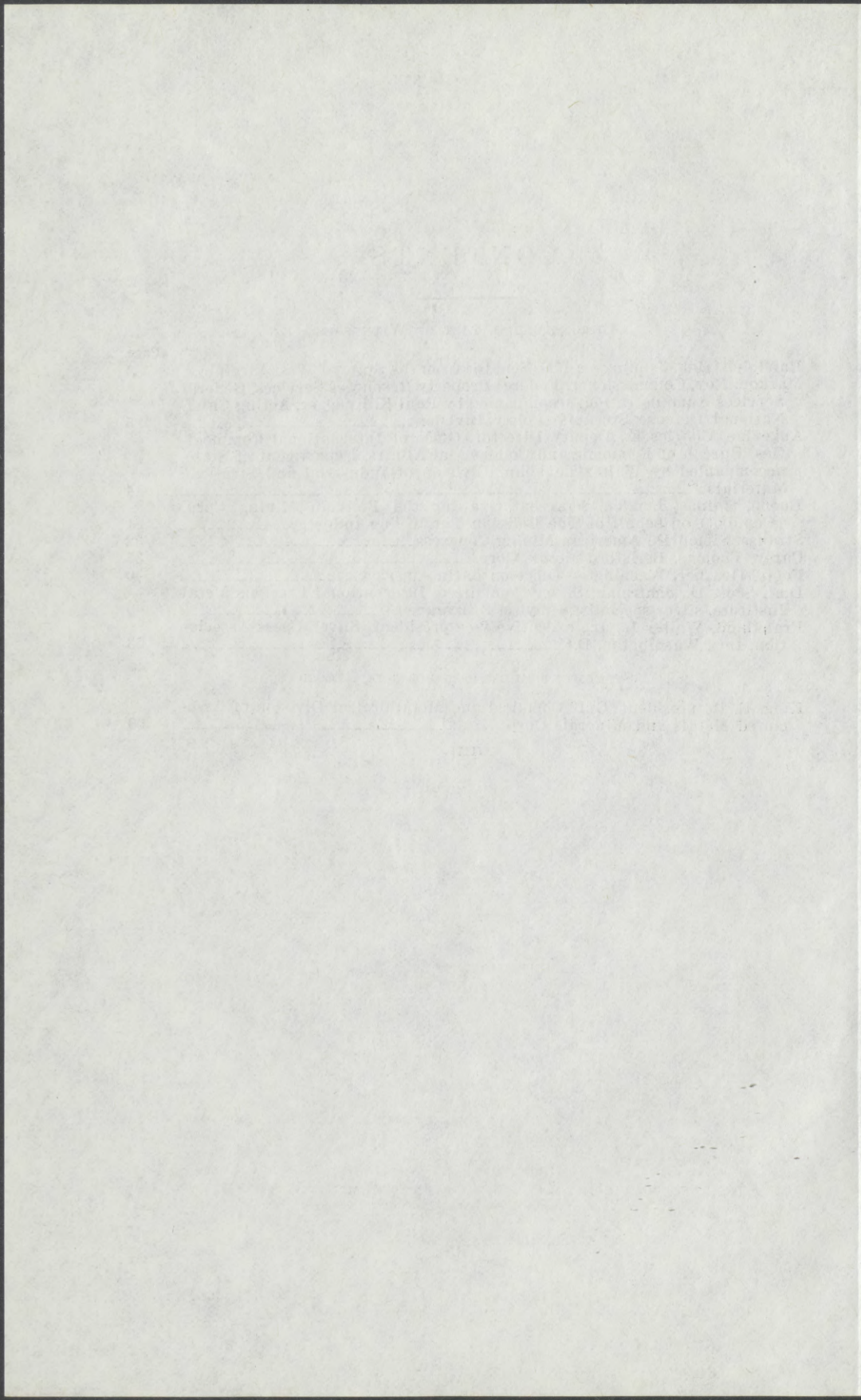
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STOCKPILE COMMODITY LEGISLATION

TUESDAY, JULY 10, 1979

U.S. SENATE,
SUBCOMMITTEE ON MILITARY CONSTRUCTION AND STOCKPILES,
OF THE COMMITTEE ON ARMED SERVICES,
Washington, D.C.

The subcommittee met at 9:37 a.m., pursuant to notice, in room 212, Russell Senate Office Building, Senator Gary Hart (chairman) presiding.

Present: Senator Hart.

Also present: Senator Randolph.

Committee staff present: James C. Smith and Edward B. Kenney, professional staff members; and Jeanie Killgore, clerical assistant.

Also present: Frank Gaffney, assistant to Senator Jackson; and Frank Krebs, assistant to Senator Cannon.

[The bills, S. 27, H.R. 595, and S. 1397 follow:]

[S. 27, 96th Cong. 1st sess.]

A BILL To authorize the Administrator of General Services to dispose of thirty-five thousand long tons of tin in the national and supplemental stockpiles, and to provide for the deposit of moneys received from the sale of such tin.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the Administrator of General Services is authorized to dispose of, by negotiation or otherwise, approximately thirty-five thousand long tons of tin held, on the date of the enactment of this Act, in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98-98h-1) and the supplemental stockpile established under section 104(b) of the Agricultural Trade Development and Assistance Act of 1954 (as in effect from September 21, 1959, through December 31, 1966; 68 Stat. 456, as amended by the Act of September 21, 1959 (73 Stat. 606)).

(b) The disposition authorized by subsection (a) may be made without regard to the requirements of section 3 of the Strategic and Critical Materials Stock Piling Act, except that the time and method of such 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.

SEC. 2. (a) Any moneys received pursuant to the disposal of tin from the national stockpile or supplemental stockpile which are authorized by this Act shall be covered into a special account which shall be established in the Treasury of the United States.

(b) Moneys covered into such account shall be available only for deposit, in accordance with legislation enacted after the enactment of this Act, in a special fund in the Treasury established by such legislation as a depository for moneys derived from sales of excess materials under the Strategic and Critical Materials Stock Piling Act. If such legislation has not been enacted within three years after the enactment of this Act, any moneys in the special account established pursuant to subsection (a) and any moneys hereafter received pursuant to sales of tin under this Act shall be covered into the Treasury as miscellaneous receipts.

[H.R. 595, 96th Cong., 1st Sess.]

AN ACT To authorize the Administrator of General Services to dispose of thirty-five thousand long tons of tin in the national and supplemental stockpiles, to provide for the deposit of moneys received from the sale of such tin, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) the Administrator of General Services is authorized to dispose of, by negotiation or otherwise, approximately thirty-five thousand long tons of tin held, on the date of the enactment of this Act, in the national stockpile established pursuant to the Strategic and Critical Materials Stock Piling Act (50 U.S.C. 98-98h-1) and the supplemental stockpile established under section 104(b) of the Agricultural Trade Development and Assistance Act of 1954 (as in effect from September 21, 1959, through December 31, 1966; 68 Stat. 456, as amended by the Act of September 21, 1959 (73 Stat. 606)).

(b) The disposition authorized by subsection (a) and by section 3 of this Act may be made without regard to the requirements of section 3 of the Strategic and Critical Materials Stock Piling Act, except that the time and method of such 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.

SEC. 2. (a) Any moneys received pursuant to the disposal of tin from the national stockpile or supplemental stockpile which are authorized by this Act shall be covered into a special account which shall be established in the Treasury of the United States.

(b) Moneys covered into such account shall be available only for deposit, in accordance with legislation enacted after the enactment of this Act, in a special fund in the Treasury established by such legislation as a depository for moneys derived from sales of excess materials under the Strategic and Critical Materials Stock Piling Act. If such legislation has not been enacted within three years after the enactment of this Act, any moneys in the special account established pursuant to subsection (a) and any moneys hereafter received pursuant to sales of tin under this Act shall be covered into the Treasury as miscellaneous receipts.

SEC. 3. (a) The President, on behalf of the United States, is authorized to contribute up to five thousand long tons of tin metal to the Tin Buffer Stock established under the Fifth International Tin Agreement at such time, and in accordance with such conditions, as he may establish.

(b) Of the amount of tin metal authorized to be disposed of in subsection (a) of the first section of this Act, the Administrator of General Services is authorized to transfer to the International Tin Council without reimbursement such amount of tin metal not exceeding five thousand long tons as may be directed by the President for the purpose set forth in subsection (a) of this section.

(c) The President shall transmit to the Congress, at least sixty days before any transfer of tin metal to the International Council under this section, a report projecting the impact of such action on the economy of the United States and on the economic and political development of the major tin exporting nations.

Passed the House of Representatives April 3, 1979.

Attest:

EDMUND L. HENSHAW, Jr.

Clerk.

[S. 1397, 96th Cong., 1st Sess.]

A BILL To authorize the disposal of three materials from the national and supplemental stockpiles

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subject to the provisions of subsection (b) and notwithstanding the provisions of section 3 of the Strategic and Critical Materials Stock Piling Act, the Administrator of the General Services Administration is authorized to dispose of the following materials, in the quantities specified, from 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 (7 U.S.C. 1704):

- (1) tin, ten thousand long tons;
- (2) silver, fifteen million troy ounces; and
- (3) industrial diamond stones, one million five hundred thousand carats.

(b) In disposing of the materials referred to in subsection (a), the Administrator of General Services shall fix the time and method of disposition with due regard to protecting the United States against avoidable loss and protecting producers, processors, and consumers against avoidable disruption of their usual markets in the materials concerned.

OPENING STATEMENT BY SENATOR GARY HART, CHAIRMAN

Senator HART. The hearing will come to order.

The purpose of our hearing this morning is to receive testimony on all pending stockpile commodity legislation.

With the passage by the Senate of H.R. 2154, the stockpile policy bill, we are now in a position to proceed with commodity legislation. I anticipate that the stockpile policy bill will be signed into law by the time the commodity legislation can be finalized.

There are three stockpile commodity bills pending before the subcommittee:

S. 27, introduced by Senator Randolph, provides for the disposal of 35,000 long tons of tin.

H.R. 595, as passed by the House, provides for the disposal of 35,000 long tons of tin with a provision that up to 5,000 long tons of the 35,000-ton total may be donated to the international tin buffer stock.

S. 1397, an administration bill, provides for the disposal of tin in the amount of 10,000 long tons, silver in the amount of 15 million troy ounces, and industrial diamonds in the amount of 1½ million carats.

In addition, the administration has proposed a stockpile acquisition plan for fiscal year 1980 totaling \$177 million. Under the provisions of the recently passed stockpile policy bill it will be necessary to authorize appropriations for any new acquisitions, so the question of acquisitions is also before us.

This is an open hearing and we will proceed in the usual manner to hear as many of the witnesses on the agenda as possible, and there are quite a number. We have had many requests to present testimony and it has been necessary under the constraint of time to limit witnesses to some degree. However, anyone who does not get to testify here today is encouraged to submit written statements for consideration to be included in the public record.

Outside witnesses have been asked to limit their oral testimony to 10 minutes covering the key points in their prepared statements, which may be submitted for the record. This will give us the opportunity to ask questions and to hear as many witnesses as possible.

I am extremely pleased that we have the distinguished Senator from West Virginia, chairman of the Environmental and Public Works Committee, Senator Randolph, who has long been interested in the stockpile question and has been actively involved. We will start with a statement by Senator Randolph.

STATEMENT OF HON. JENNINGS RANDOLPH, A U.S. SENATOR FROM THE STATE OF WEST VIRGINIA

Senator RANDOLPH. Thank you very much, Mr. Chairman. I am personally and officially grateful to you, Senator Hart, for giving to those

of us who are intensely interested in this subject matter the opportunity to testify today.

My particular interest, as you know, from the 95th Congress, carrying over very earnestly in the 96th, is to testify on S. 27, which was introduced on the first day of the new Congress, January 15.

This measure calls for the disposal of 35,000 long tons of tin from our strategic stockpile. There are several points concerning this legislation that I bring to the attention of the subcommittee.

The national strategic stockpile presently contains 200,500 long tons of tin. The most recent figure that is published by the Department of Defense under the 3-year sustained-war objective calls for a stockpile goal of 32,499 long tons. Thus some 167,500 tons of tin could be made available for sale from current stockpiles of tin and we would still be able to maintain the objectives which are strategic from the standpoint of our country's well-being.

S. 27 would authorize the sale of only 35,000 tons and would therefore leave in the stockpile more than four times the amount of tin, as I understand it, necessary to meet the strategic goals of our country.

There has been some discussion that the stockpile goal is too low and should actually be the total domestic consumption of tin over a 3-year period. This would amount to 138,500 tons of tin and represent the stockpile goal provided for in a bill that has been presented in the Senate by our colleague Senator McClure, of Idaho.

Even with this higher objective there would be an excess of 63,000 tons of tin in our current stockpile, and that is much more than the 35,000 tons of disposal in the proposal that I have sponsored.

Mr. Chairman, I am concerned that the oversupply of tin in the stockpile is an economic waste, and I think the American people just now are thinking particularly of conservation. The subject is waste and how it can be cured across the spectrum of our national life.

When we think of the sale of 35,000 long tons of tin, as proposed, that would yield approximately \$570 million, which could be used to acquire other critical materials for the stockpile which today, as I understand it, are in short supply.

Over the past 3½ years the price of tin has risen drastically, from \$2.87 per pound in January 1976 to \$7.73 as of July 6, 1979. That is an increase of over 150 percent. This increase is due in large part to traders who are speculating, frankly, on the tight world tin market. By releasing 35,000 long tons of tin from the stockpile the pressure that has been driving up world tin prices certainly would be relieved and tin prices, I think, could be expected to stabilize.

I stress this statement now; U.S. consumers will benefit directly if the price of tin stabilizes. Tin is widely used, as you know, in the packaging of food and beverages and, of course, for the making of electronic components. When the price of tin rises, as it is anticipated to do, by another 10 percent this year, unless there is a release of tin from the stockpile, consumers will pay the cost through higher prices on these essential items.

Therefore, to the members of the subcommittee and to you especially, Mr. Chairman, I say that releasing tin from the stockpile will help reduce the inflationary spiral.

On March 2, 1979, the General Services Administration testified before the House Subcommittee on Sea Power and Strategic and Critical Materials and again in its letter sent to Senator Stennis on

April 30, 1979, that it has: "No objection, therefore, if Congress should authorize the disposal of 35,000 long tons." That is from GSA.

The disposal of these 35,000 long tons would simply mean that GSA supports the disposition of tin from the stockpile, as I understand it, which is in excess of strategic program needs.

The House Armed Services Committee Report No. 96-3 is a further statement of what I have just made.

I believe that the GSA and executive branch agencies recognize the economic waste caused by maintaining excess tin in the strategic stockpile. Certainly the Government would realize a significant profit by selling its surplus tin at current market prices. I am told that the average acquisition cost of tin in the stockpile was \$1.08 per pound as compared with the market price of \$7.73 as of July 6, 1979.

Legislation authorizing the disposal of tin has passed both the House and the Senate. That, as you will recall, was in the 95th Congress. In the Senate, we presented it in the form of an amendment which, as you will recall, I cosponsored with Senator Church, to the sugar bill. As you know, the sugar bill was lost in the rush for adjournment.

The House, by a vote of 371 to 16 on April 3, 1979, passed H.R. 595, which also authorizes the disposal of 35,000 long tons of tin.

Mr. Chairman, disposal of these 35,000 long tons of tin, I think, is consistent with sound stockpile management and its objectives. An additional benefit would be to stabilize prices in the world tin market. This additional benefit will not be realized, if I am correctly informed and understand the subject, if only 10,000 tons of tin were to be released, as has been suggested.

I hope that you, Mr. Chairman, will give—and I know you will—very careful consideration to not so much the testimony that I have given but that you will act favorably on the essence of the bill itself.

Senator HART. Senator Randolph, the subcommittee is grateful for your statement and your continuing concern about subjects that, I think, receive too little public attention but are of enormous importance to the taxpayers and the Federal budget and the long-term security of the country.

So once again we thank you for your interest and your statement and the legislation which you are seeking to get through. We will continue to keep in contact with you and your office.

Senator RANDOLPH. Thank you very much, Mr. Chairman.

Senator HART. We now have witnesses from the administration, Mr. Roy Markon, Commissioner of Federal Property for the Resources Service of GSA, and Paul Krueger, Acting Chief of the National Defense Stockpile Division of GSA. We have your prepared statement, Mr. Markon. Proceed as you wish.

STATEMENT OF ROY MARKON, COMMISSIONER, FEDERAL PROPERTY RESOURCES SERVICE, GENERAL SERVICES ADMINISTRATION, ACCOMPANIED BY PAUL K. KRUEGER, ACTING CHIEF, NATIONAL DEFENSE STOCKPILE POLICY DIVISION

Mr. MARKON. Thank you, Mr. Chairman. I am Roy Markon, Commissioner, Federal Property Resources Service, GSA. With your

permission, I do have a prepared statement and will introduce it for the record and summarize my remarks.

Senator HART. Fine.

Mr. MARKON. I was impressed by the statement by the Senator from West Virginia. He quite aptly summarized the situation with regard to the excess of the materials in the stockpile program. S. 1397 is the administration-sponsored legislation. Of course, we support this legislation. This provides for the disposition of 10,000 long tons of tin, 15 million troy ounces of silver, and 1½ million carats of industrial diamonds.

I think the only difference we have here is that the other bills provide for an increased disposal authorization for the tin of 35,000. The difference between the Senate bill and the House-passed bill is that the House-passed bill provides for a contribution of 5,000 tons to the buffer stock from the 35,000 tons to be authorized.

We have no problems with this legislation. Our 10,000 tons of tin is predicated on our annual plans to dispose of these materials. If we should receive authorization for a greater amount, 35,000 tons, we would not dispose of that entire amount in the first year; we would dispose of it over a longer period of time, say 3 or 4 years.

The contribution of 5,000 tons of that material to the buffer stock would be consistent with our position and our program. We would insist, however, that the legislation be amended to stipulate that the proceeds ultimately generated by the contributions of the 5,000 tons to the buffer stock be remitted to GSA for the national defense stockpile transaction fund for use in acquisition of materials required for the stockpile.

This is not part of the House bill and not part of the legislation sponsored by Senator Randolph. We think this is consistent with the committee and the administration's position on the policy bill.

I think that summarizes what we have to say about it.

[Mr. Markon's prepared statement follows:]

PREPARED STATEMENT OF ROY MARKON, COMMISSIONER, FEDERAL PROPERTY RESOURCES SERVICE, GENERAL SERVICES ADMINISTRATION

Mr. Chairman, and members of the Subcommittee, I am Roy Markon, Commissioner, Federal Property Resources Service, General Services Administration. I am accompanied by Mr. R. A. Cornell, Assistant Commissioner for Stockpile Disposal, by Mr. R. F. Marilley of the Office of the General Counsel, and by Mr. Paul Krueger of the Federal Preparedness Agency. I am happy to be here today to testify on behalf of the Administrator, R. G. Freeman III on pending stockpile disposal legislation, including S. 1397, S. 27, and H.R. 595.

These bills cover three commodities in the stockpile: tin, silver, and industrial diamond stones. The Director, Federal Preparedness Agency, has advised me that under present planning for these commodities, the stockpile goals for national security purposes are: 32,499 long tons of tin; no silver; and 5,559,000 carats of industrial diamond stones. As of June 30, 1979, inventories of all three commodities exceeded these goals. Our tin holdings are 200,480 long tons; the silver stockpile consist of 139,500,000 troy ounces; and there are 20,007,991 carats of industrial diamond stones in the inventory. Currently, GSA has no authorization to dispose of the tin, silver, and industrial diamond stones that are excess to stockpile requirements.

Tin sales under previous authorizations were completed with the sale of 70 tons in September, 1978. In the period since 1960, tin sales have totaled 152,467 long tons. These sales generated proceeds of \$716.9 million, compared with an original acquisition cost of about \$164.7 million. GSA has never sold silver from

the stockpile, but silver sales for the Department of the Treasury in the period from 1968 to November 1970 totaled 304.6 million troy ounces and brought proceeds of \$561.4 million, as against original acquisition costs of about \$392.9 million. Sales from the stockpile of excess industrial diamond stones under previous authorizations were completed with the sale of 270,114 carats in the period from July to September 1975. From 1968 to 1975, industrial diamond stone sales totaled 6,763,792 carats; the proceeds were \$60.8 million, whereas acquisition costs had been about \$75.1 million.

I would now like to comment on the three bills under consideration by the Subcommittee today. S. 1397 would authorize the disposal of 10,000 long tons of tin; 15,000,000 troy ounces of silver; and 1,500,000 carats of industrial diamond stones. In a message to the Congress on March 8, 1979, the Administrator submitted proposed legislation that recommended the disposal of these commodities in the amounts set forth in the proposed bill. Mr. Chairman, the Administration supports this bill and the levels of disposals which it would authorize. Stockpile sales of such magnitudes for these commodities will be consistent with the Annual Materials Plan, prepared by the Director of the Federal Preparedness Agency, which includes a balanced program of acquisitions and disposals planned for the coming fiscal year. Our analysis indicates that sales at the rates specified in the Annual Materials Plan and in S. 1397 can be absorbed by the markets without disruption of these markets and without loss to the Government. If authorized, these disposals will provide the start to a balanced, long-term program for the restructuring of the stockpile to meet national defense needs as defined by the Federal Preparedness Agency.

The second bill, S. 27, would authorize the disposal of 35,000 long tons of tin from the stockpile. We support the intent of this bill to authorize the disposition of a quantity of tin that is excess to program needs. If Congress should authorize the disposal of 35,000 long tons, we believe we could effectively manage the non-disruptive disposal of that amount. Such disposals, of course, would extend over a period of three years or more in order to avoid market disruption and at the same time protect the interest of the Government in receiving a fair return. Sales would be reduced or suspended during periods of significant relative price weakness. While the disposal of the 35,000 long tons exceeds the planning horizon of the Annual Materials Plan, the Office of Management and Budget advises us that our subsequent annual spending levels will be consistent with the projected revenues generated from the sale of excess materials. They will, however, insist that the sales projections be reasonable and that program increases be non-inflationary and otherwise not disruptive to the economy.

H.R. 595 is very similar to S. 27, in that it also would authorize the disposal of 35,000 long tons of tin. It also contains, however, language authorizing a U.S. contribution of 5,000 long tons of tin from the stockpile to the Tin Buffer Stock established under the Fifth International Tin agreement, to which the United States is a signatory. Mr. Chairman, we support the contribution to the International Tin Council buffer stock provided that it does not conflict with the Annual Materials Plan, and the authorizing legislation is amended to stipulate that the proceeds ultimately generated by the contribution are remitted to GSA for the National Defense Stockpile Transaction Fund for use in the acquisition of materials required for the stockpile.

Once again, Mr. Chairman, I thank you for giving GSA this opportunity to present its views of the proposed legislation. This concludes my prepared statement, and I would be pleased to respond to any questions you may wish to ask.

Senator HART. Thank you very much, Mr. Markon. I have several questions with regard to both acquisitions and disposals. First let me ask you about your position on the acquisition side. As I understand it, as part of your annual materials plan you are proposing to acquire stockpile material in fiscal 1980 totaling \$177 million. Is that an accurate figure?

Mr. MARKON. Yes. \$177 million is a figure that contains both projected acquisition costs and handling and transportation costs. The actual amount for the materials will be about \$165 million and the rest for those additional costs. That is in this year's appropriation request for my service. It was passed over by the House without preju-

dice and the question is still open with the Senate Committee on Appropriations.

Senator HART. Since, for market reasons, traditionally these specific commodities have been kept confidential and available to only subcommittee members, could you describe generally how you arrived at that figure of \$177 million and particularly how you developed the list of acquisitions?

Mr. MARKON. As to the list of acquisitions, I will defer to Mr. Krueger, who is from the Federal Preparedness Agency. As to the amount specified \$177 million, this is based on our estimated value, which we derived from our market research, of the commodities that we intend to purchase.

Senator HART. Mr. Krueger.

Mr. KRUEGER. Mr. Chairman, the actual way this annual materials plan is constructed involves an extensive interagency process which involves the Departments of Defense, State, the Interior, Commerce, the Treasury, the Office of Management and Budget, the Federal Preparedness Agency, GSA, and the CIA.

We take a look at our existing inventories of stockpile material and the shortages where our inventories are not sufficient to cover our stockpile goals. For those materials where we have shortages in the most sensitive areas, we take a look and try, through the interagency process, to assess what the market conditions will be and try to come up with a balanced program of acquisitions and disposals, both acquisition of needed materials and disposals of excess materials.

After we go through the process, it is submitted to the Office of Management and Budget, and the National Security Council, and becomes part of the President's budget. The actual dollar numbers which showed up in the President's budget for both acquisition and disposal were based upon the prevailing market prices.

Senator HART. Do you adjust those from time to time for inflation?

Mr. MARKON. Yes; we do the market research and provide the data to the Federal Preparedness Agency. We have continued research on the market and we adjust our prices accordingly.

Senator HART. Mr. Krueger, you mentioned the problem of balancing. Since the principal purpose of a stockpile, of course, is related to national security, to what degree do you condition the acquisitions on the availability of commodity for disposal purposes? In other words, if it got to a close question of something that was needed to be acquired in our national security but for which there was no trade-off in terms of disposal, would you go ahead and request acquisition of that commodity in any case even if it meant unbalancing the equation economically?

Mr. KRUEGER. In order to be consistent with a lot of competing priorities in the budget process, we looked at the most urgently needed material and made an assessment of market conditions; that is, how much we could purchase of the most urgently needed material.

Based on the way the markets looked 9 months ago, or a year ago, we purchased or planned to purchase all of those high-priority materials we could at that time and adjusted the disposal to what we could acquire, once again, keeping a balanced program so that we didn't get too far out of line in either direction.

Senator HART. In putting together your acquisition list, did you make a request of the administration, OMB, or whomever, for what you considered high-priority acquisition of commodities, which was rejected because of budget considerations?

Mr. KRUEGER. No, sir, not at all.

Senator HART. If you had additional funds available, would you expand your acquisition program for fiscal 1980?

Mr. KRUEGER. I think at the present time we have reassessed what the market conditions are. As you are aware, with the rising material prices, if we were to evaluate and reprice our current commodity plan, we would find that \$177 million would not be sufficient; we would need more money. I think that if we had additional moneys, perhaps up to \$250 million, we would be purchasing the highest priority material.

Senator HART. In other words, you could spend an additional \$85 million on high-priority material?

Mr. KRUEGER. Roughly, sir.

Senator HART. I am not sure how that squares with your last answer, which was, as I understand it, that no high-priority materials were left off because of budget constraints.

Mr. KRUEGER. There is a difference here from a year ago when we priced out what the annual materials plan would cost based on prevailing market prices. The grand total came to \$177 million. With rising material prices, if we were to continue on and just reprice our shopping list of materials, we would find we need more than \$177 million.

Senator HART. Because of changing market conditions?

Mr. KRUEGER. Inflation, prices, things of that sort.

Senator HART. For our purposes, could you provide for the record the cost estimates of two additional acquisition plans? One would be an acquisition plan constrained only by the market, and the other would be an acquisition plan to buy all of the requirements for priorities one through six within market constraints—that is to say, using current pricing and inflation estimates.

Mr. KRUEGER. I will be happy to do that, sir.

[The information provided to the committee is classified and retained in committee files.]

Senator HART. Finally, in the past Congress has recommended that you pursue a balanced sales-acquisition program. Your proposal for fiscal 1980 is to sell commodities totaling \$253 million, as I understand it, and buy commodities totaling \$177 million. Why don't the acquisitions come closer to the disposal figures?

It is my understanding that excess sales receipts will go into a fund where they can be used only to buy needed materials. Why are you letting that surplus, if you will, in effect, sit in that fund?

Mr. KRUEGER. There are two things here. First of all, there is a difference between sales and receipts. While our request for disposal authority would generate sales in the amount of \$250 million, those moneys would not all be received during that fiscal year. For the budget year, the receipts would be something less than that.

Mr. MARKON. The expenditure of the proceeds generated by the sale of these commodities would be reflected in next year's congressional program. We can't spend the money until it is in the fund. It will take a little while to sell the commodities and accumulate the money. It

would not sit there very long. We would come to the Congress for additional acquisition authority to use those funds in order to restructure the stockpile.

Senator HART. In other words, it is very difficult to take a snapshot, if you will, of the stockpile situation at any given time because of changing market conditions, because of the lag time between when you put the list together and when Congress acts on it and because of some of these other considerations?

Mr. MARKON. That is right, sir.

Senator HART. The receipts coming in and so forth.

Let me ask you about the disposal side. Your disposal program is substantially reduced from your proposal last year in terms of both the number of commodities and quantities involved. Why is that?

Mr. KRUEGER. I think one of the principal reasons is the new program. We felt that to get on the ground floor and to test the program out, to test the mechanisms out, to get our feet wet, it made sense to go with a fewer number of commodities and gain some experience in both the buying and the selling.

We have been selling commodities for the past 15 years and have reasonable experience there. But on the acquisition side we have had no extensive experience. This will be the first time in the entire history of the stockpile where we will need substantial acquisitions as well as substantial disposals. We have material moving in and out of the stockpile.

Senator HART. So in relative terms you are proceeding cautiously because of the changed procedures?

Mr. KRUEGER. We have to learn how to do this. Rather than start with a very large program, we felt that proceeding cautiously and carefully would be in the interest of the Government and in the interest of the industry concerned.

Senator HART. How did you arrive at the quantities of commodities you intend to dispose of? Was that with the same procedure as the acquisition?

Mr. KRUEGER. Yes. The annual materials plan interagency committee stresses both acquisition and disposal. The principal consideration becomes a question of avoiding market disruption on both acquisitions and disposals.

Senator HART. On the disposals, will those be disposed of in a competitive manner and for domestic consumption?

Mr. MARKON. I might answer that. Yes; the policy bill provides that we will use competition in disposal as well as in acquisition, and it provides for sales for domestic consumption.

Senator HART. Do you have any rule of thumb or gage that you use as to what quantities of materials or commodities can be disposed of without disrupting the market? How do you gage that?

Mr. MARKON. We make an analysis of the entire market, the annual activity in that particular commodity, both nationally and internationally, and project into that market activity our specific amounts. The data we get out of that modeling provide these quantities for us.

Senator HART. There is no standard rule; it is all sophisticated calculation of market conditions?

Mr. MARKON. That is right.

Mr. KRUEGER. I should add that these commodities don't enter the

market all at once. They are marketed in much smaller increments than what these bills would allow. While this detailed analysis is very useful and essential before the fact, it is when you actually enter the market and assess the reaction of the market to either your acquisition or disposal and see this reaction, you can then pace additional acquisitions and disposals.

Mr. MARKON. I might add that prior to the development of the annual disposal plan, we meet with industry to consult and get the direct input from particular producers and consumers as to their projected effects of our activity in the market.

Senator HART. Before deferring to Senator Randolph for any questions he might have, let me ask a couple of questions on tin. Does your proposed tin disposal of 10,000 long tons include any tin for contribution to the international tin buffer stock?

Mr. MARKON. No, sir. It is the amount that we would plan to dispose of during the year in the market.

Senator HART. You testified in support of the House bill H.R. 595, which, as you know, proposes to dispose of 35,000 long tons of tin. Yet your legislative proposal, the administration's proposal, is to dispose of only 10,000 long tons. How do you reconcile that difference?

Mr. MARKON. Our proposals are presented on the basis of this balancing of the acquisitions and disposals. If you should increase the authorization, it would change the balance a little bit but it would not change our plans to market. We would have authority in excess of what we intend to exercise in a given year's time. This does not bother us; it just affects our subsequent program.

In other words, for the next year's program, rather than to ask for an additional 10,000 tons of tin authority, we would use part of the 35,000-ton authorization that would be granted under the pending legislation. We would amend our future plans to exclude requests for authorization for tin until we used up the whole 35,000.

Senator HART. Let me ask about the foreign policy considerations involved here and how they get factored into your commodity proposals. I am referring specifically to the situation in Bolivia, that country's economic dependence on the world tin market. We will have testimony later, sponsored by the Bolivian Embassy and human rights groups, that call the tin disposal into question. Was the Bolivian tin question addressed in arriving at your proposal? What role did foreign policy considerations play?

Mr. KRUEGER. The interagency group which comes up with the annual materials plan consists of four subcommittees. One of these subcommittees addresses international considerations and is chaired by the Department of State with participation by the Department of Defense, Federal Preparedness Agency, and the Department of Commerce.

The purpose of that subcommittee is, in particular, to look at not only domestic market impact but what are the international impacts of these commodity transactions since many of these markets are, in fact, international markets. So it is within that forum that the international policy considerations as well as international economic impacts are considered.

Senator HART. Did the State Department's recommendation substantially differ from the final administration's position on tin disposal?

Mr. KRUEGER. No; it did not. To my knowledge it did not differ at all.

Senator HART. Senator Randolph.

Senator RANDOLPH. Thank you very much, Mr. Chairman. You are very kind to indulge me the opportunity to follow through on the matters about which you have been inquiring.

As I understand it, Mr. Markon, you and your colleagues of the GSA have no objection—in fact, you would support, if I can put words into your mouth, which I do not want to do—you have no objection to the disposal of 35,000 long tons of tin from the stockpile provided that our Government is careful to avoid what I call market disruption; is that correct?

Mr. MARKON. That is correct, sir.

Senator RANDOLPH. Then the disposal of that 35,000 long tons of tin is consistent with what you believe to be a good stockpile management procedure based upon your experience, as Mr. Krueger has so indicated?

Mr. MARKON. That is right, sir.

Senator RANDOLPH. Furthering the thought of the chairman is to the State Department's position, do you know if there are other departments in the executive branch of the Government that have taken a direct position on this matter of releasing the 35,000 tons from the stockpile?

Mr. KRUEGER. I think the annual materials plan reflects all departments and agencies involved in the idea of what we can market in a single year, the next ensuing fiscal year. While the agencies have not been polled on the market impact of the 35,000-ton disposal, I think they all recognize that, if there is authority in excess of the 10,000 tons that we requested this year, it would be spread out over a number of fiscal years and be part of future annual material plans.

There is no intention, and we certainly don't foresee that the 35,000 tons will be sold in any single year or that it would be desirable to do so. It would be convenient in that we would not have to, in future years, ask for additional authorizing legislation. But we would not market the entire 35,000 tons. We testified before that we estimated it would take 3 or 4 years to market 35,000 tons.

Senator RANDOLPH. Mr. Chairman, I want to be very careful in my statements and very correct. From time to time we have been in touch with Alfred Kahn's office, who certainly is the inflation fighter, if we may use that term, of the administration.

Do you know his position on this matter? Do you have any knowledge of it at all?

Mr. MARKON. His personal position?

Senator RANDOLPH. Yes, sir.

Mr. MARKON. No; I have not received any comments. But what we are testifying on here is the administration's position which, I believe, would include his.

Senator RANDOLPH. Yes; but we do feel that he is strongly in accord, Mr. Chairman, with the equities involved in the disposal of the 35,000 tons of tin, provided, as I have indicated, there is no disruption

of the Government's programing. I want also, if I can, to have that clearly understood.

It has been my privilege also, Mr. Chairman, to have had conferences with the very gracious and informed Roberto Arce, Ambassador from Bolivia. We have talked at length on this subject. I can understand his concern. I do not dismiss it lightly. But in this matter I simply say—and I want the record to indicate this because you have programed many for testimony—that weighing all of the considerations, I come down strongly on the matter of the disposal of the 35,000 tons.

I do not want to think in terms of doing damage to any people, but I do know that there are certain priorities that we must continue to look for and hopefully to reach in our country in just the processes of good government management and, very frankly, the industries within our own country.

I think it is right for me to say that, yes, I have been approached—anyone can check that—I have been approached by the interests in the State of West Virginia. So when we think in terms of the loss of employment, as Ambassador Arce would indicate perhaps, we have approximately 5,000 workers, Mr. Chairman, who are employed in the domestic tin plate steel industry.

I certainly can understand that. I do not attempt to say that I come out of a void. I come out of a representation, as you often do, in a matter that, very frankly, concerns workers in your State on a recent matter. We bring it to the Senate and then there is a decision made.

I always want to understand the opposition, frankly, the opinion, the viewpoint, of others. This is a matter of extreme importance to West Virginia. I also say that I think the Government itself will be well served by the proposition presented.

[Material for the record follows:]

GSA REPLIES TO SENATOR THURMOND'S ADDITIONAL QUESTIONS FOR THE RECORD

Question 1. What is the total amount of tin currently in the National Strategic Stockpile?

Answer. 200,473 long tons.

Question 2. Under present planning, what amount of tin is necessary to meet national security goals?

Answer. 32,499 long tons.

Question 3. Then, what is the amount of tin in the stockpile available for disposal?

Answer. 167,974 long tons.

Question 4. What amount did the Administration recommend be sold in the bill last year?

Answer. The Administration's original recommendation last year was for disposals in the amount of 10,000 long tons. A bill reflecting this amount was introduced. Hearings were held on both this bill and another, which would have authorized the disposal of 35,000 long tons. In the course of the hearings, the Administration supported the higher disposal level.

Question 5. Why did you decrease this amount?

Answer. The 10,000-long ton disposal recommendation submitted this year conforms with the Administration's Annual Materials Plan, which envisions a balanced, one-year program of stockpile disposals and acquisitions. The single-year planning horizon furnishes the principal reason for a limitation of the disposal request to 10,000 tons.

Question 6. Would GSA oppose the disposal of 35,000 tons of tin from the stockpile, provided that the government is careful to avoid any market disruption?

Answer. No.

Question 7. Then, in your opinion, the disposal of 35,000 tons of tin is consistent with sound stockpile management procedures?

Answer. Yes.

Question 8. Have any other Executive Branch departments or agencies taken a position with regard to releasing 35,000 tons of tin from the stockpile? If so, can you tell us where they stand on this question?

Answer. The Department of State, with the approval of the National Security Council and OMB, supports H.R. 595, which would authorize the disposal of 35,000 long tons of tin. Of particular interest to the Department of State is the provision in H.R. 595 which would authorize the contribution of up to 5,000 tons of stockpile tin to the buffer stock of the International Tin Council. GSA supports this buffer stock contribution, provided that it does not conflict with the Annual Materials Plan, and the authorizing legislation is amended to stipulate that the proceeds ultimately generated by the contribution are remitted to GSA for the National Defense Stockpile Transactions Fund for use in the acquisition of materials required for the stockpile.

Question 9. How much tin could be sold in one year?

Answer. Based on its market analyses, GSA believes that a viable marketing program can be based on disposal of 10,000 long tons in the coming year, without significant market disruption or the incurring of avoidable loss to the government. If disposal authorization is provided by the Congress, GSA would watch the markets carefully and manage its disposal program flexibly, in order to forestall both market disruption and possible loss, should present market forecasts prove inaccurate.

Question 10. Is it possible that speculators could acquire this amount in order to drive the market price higher?

Answer. Speculative purchases always are possible, provided that the purchasers are sufficiently well-financed to buy credible tonnages at prices in the \$7.00 to \$7.50 per pound range.

Question 11. What can you envision if Congress approved a sale of 10,000 long tons? Of 25,000 long tons? Of 35,000 long tons?

Answer. The 10,000-long ton figure represents our best estimate of the amount of tin that the market could absorb in a year without its disruption. Under current planning, larger amounts would be sold over longer periods—possibly as much as three years or more, for the 35,000-ton level—depending on market conditions. Significant price weakness during the sales program would argue for a reduction in sales levels; high and rising prices doubtlessly would encourage GSA to market stockpile tin at faster rates.

Question 12. Why has price for tin risen so sharply in the last 3-4 years?

Answer. The tin market over this period has been imbalanced with respect to supply and demand. With demand stronger than supply, non-speculative inventories have been drawn down and prices have risen. One of the likely results of a GSA sales program would be an opportunity for industrial users of tin to rebuild their inventories to more normal levels, and this is one reason why we expect to be able to market as much as 10,000 long tons in a single year without causing significant price weakness.

Senator HART. Thank you very much, Senator Randolph. Thank you, gentlemen, for your testimony.

Our next witness is Mr. Charles Angevine, Deputy Director, Office of International Commodities, Bureau of Economic and Commercial Affairs, Department of State.

STATEMENT OF CHARLES E. ANGEVINE, DEPUTY DIRECTOR, OFFICE OF INTERNATIONAL COMMODITIES, BUREAU OF ECONOMIC AND COMMERCIAL AFFAIRS, DEPARTMENT OF STATE, ACCOMPANIED BY WALTER LENAHAN, DIVISION OF INDUSTRIAL AND STRATEGIC MATERIALS

MR. ANGEVINE. Good afternoon, Mr. Chairman. Thank you for inviting me here. As you noted, I am Deputy Director of the State Department's Office of International Commodities. I have with me Mr. Wal-

ter Lenahan, of the Division of Industrial and Strategic Materials in that office.

If you will permit, I will summarize briefly my prepared testimony and then I will be prepared to answer any questions that you or others may have.

I think that an appropriate starting place is with the disposal legislation. I think that Senator Randolph has put forward very well the case for the benefits to the United States of a disposal program. I would like to say that disposal in the amount suggested would contribute to the economic benefit of the United States in the view of the Department of State.

I would like to endorse the remarks made by Commissioner Markon on disposal, and then I would like to make a few remarks on the subject of a contribution by the United States to the International Tin Agreement. As you know, that is a provision contained in H.R. 595.

The United States is a member of the Fifth International Tin Agreement. We joined that agreement because we believed that our participation in it would help to further our international economic and political interests. The intent of the agreement is to balance international supply and demand of tin, stabilizing the price within an agreed band, at levels deemed to be both remunerative to producers and fair to consumers. To the extent it will be effective in achieving those objectives, it will contribute to the economic health of the participating countries.

One of the main problems with the International Tin Agreement is that the size of its buffer stock has been too small to stabilize the world tin price effectively. What we would propose to do with our contribution to the agreement would be to increase the ability of the tin agreement to stabilize the international tin market. We would expect that our contribution, which would be voluntary, would help stimulate contributions by other consuming countries.

I would add here, Mr. Chairman, that the State Department supports the proposal of Commissioner Markon that the authorizing legislation be amended to stipulate that the proceeds ultimately generated by the contribution are remitted to GSA for use in the acquisition of materials required for the stockpile.

In conclusion, I would note that, while we use the term "contribution," we would, in effect, be making an investment in the International Tin Council buffer stock. This investment would be returned at the termination of the agreement in 1981 along with our pro rata share of any profits resulting from buffer stock operations. While a profit cannot be guaranteed, contributions have earned an average return of 8 percent per annum in past agreements. Thank you, Mr. Chairman.

[Mr. Angevine's prepared statement follows:]

PREPARED STATEMENT BY CHARLES E. ANGEVINE, DEPUTY DIRECTOR, OFFICE OF INTERNATIONAL COMMODITIES, BUREAU OF ECONOMIC AND COMMERCIAL AFFAIRS, DEPARTMENT OF STATE

Mr. Chairman, I am Charles Angevine, Deputy Director of the State Department's Office of International Commodities. Within the State Department it is the Office of International Commodities that is responsible for carrying out U.S. policies with respect to basic commodities of interest to the Government and domestic industry. An important aspect of that responsibility is coordination with

the federal property resources service and foreign governments to ensure that the strategic stockpile acquisition and disposal program is consistent with our overall foreign economic policy objectives.

I am pleased to have this opportunity to testify before your Subcommittee regarding that provision of H.R. 595, which would authorize a contribution of up to 5,000 long tons of tin metal to the buffer stock, operated by the International Tin Council under the Fifth International Tin Agreement. Since Commissioner Markon has already outlined the Administration's position on disposals, I would like to confine my remarks to the proposed contribution to the buffer stock of the International Tin Council.

The United States is the world's leading consumer of tin, consuming annually approximately 63,500 tons of tin metal valued at current prices at approximately \$800 million. We acquire three-fourths of our tin requirements from abroad, with the remainder coming from domestic secondary production. In 1978, we imported 47,000 metric tons of tin metal valued at about \$610 million.

The United States joined the Fifth International Tin Agreement (ITA) in 1976, and we have participated actively since then in the International Tin Council, the ITA's executive body. We entered the Agreement because we judged that U.S. participation would help to further our international economic and political interests. By joining the Tin Council, the U.S. put itself in a better position to influence the Council's policies affecting the long-term supply of tin, thus protecting both American industry and consumers. Our decision clearly demonstrated our commitment to the idea of joint producer-consumer cooperation on international raw materials problems.

On a worldwide basis, approximately 205,000 tons are consumed annually, most of it in Western developed countries. In addition to the U.S., Japan, the Federal Republic of Germany, France and the United Kingdom are important consumers as is the Soviet Union. World tin trade in 1978 was valued at approximately \$2.7 billion, making tin the world's seventh leading commodity export in terms of value. Tin exports are an important source of revenue to many developing countries, particularly Malaysia, Bolivia, Indonesia, and Thailand where it is a major source of domestic employment, government revenue and foreign exchange earnings.

The intent of the ITA is to balance international supply and demand of tin, stabilizing the price within an agreed band at levels deemed to be both remunerative for producers and fair to consumers. To the extent that the ITA can be effective in achieving those objectives, it can both contribute to the economic health of the participating countries and demonstrate the feasibility of international cooperation in dealing with major trade and developmental problems.

The purpose of a U.S. tin contribution is to help rectify several problems which have hampered the ITA historically. The most important of these is that the buffer stock operated by the Agreement has been too small to stabilize the world tin price effectively. In periods of slack demand and falling prices, the buffer stock has been unable to obtain enough metal from the market to defend the floor price. Conversely, when shortages have appeared and prices have hit the price ceiling, the buffer stock has had insufficient metal to release into the market to dampen rapid price increases. This has led the Tin Council to rely excessively on export controls, the other major component of the ITA's stabilization machinery, to keep the prices above the floor level.

Application of these controls has tended to inhibit production and discourage new investment in the tin industry. Over the short-term, export controls are inherently more cumbersome and slower to take effect in the market than are buffer stock purchases and sales. There are long lags between the imposition and subsequent relaxation of such controls and any actual impact on market supplies and prices. The result has been the development of chronic tin shortages and a quadrupling of tin prices over the past five years. This situation has been made worse, of course, by the exhaustion of the ITA's buffer stock in the face of such increases.

The contribution to the tin buffer stock which H.R. 595 would authorize is intended to help alleviate this situation, and to make the ITA a more effective stabilization instrument.

The ITA provides for a buffer stock with a nominal level of 40,000 metric tons. Half of this amount is in the form of mandatory contributions from producers, with the balance made up of voluntary contributions of metal or the cash equivalent from consuming countries. Seven consuming countries have thus far contributed the equivalent of about 8,000 metric tons to the ITA buffer stock. Our contribution would, we believe, encourage yet other consumers to contribute. It

would also demonstrate, in concrete fashion, the seriousness of our commitment to participate in workable international commodity arrangements. Since we consider that the ITA has economic benefits for us, both with respect to short-term stabilization and long-term assurance of reasonably-priced supplies, we should share the cost of making it work. We have stated that the same principle of mutual producer/consumer responsibility applies as well to other commodity agreements.

An increase in the buffer stock will also strengthen our arguments within the Tin Council against the excessive and prolonged use of export controls. A larger buffer stock should permit the ITA to moderate the price volatility which has plagued the tin industry during the 70's. Over the longer run, such enhanced price stability, along with appropriate tax and investment policies in producing countries, should help bring about the new investment necessary to assure adequate supplies of tin in the 1980's and beyond.

The contribution of H.R. 595 would assist to carry out our objectives in the ITA. The bill would authorize the President to contribute up to 5,000 metric tons of tin metal to the International Tin Council. The contribution would be made from metal which is surplus to our needs under the Strategic and Critical Materials Stockpiling Act.

I would note also that the contribution provision of H.R. 595 does not conflict with other pending legislation which would authorize the disposal of surplus tin from the national and supplemental stockpiles. Should Congress authorize stockpile releases, both the disposals from the stockpiles and the contribution to the ITC buffer stock could be used to meet consumer demand and moderate currently high prices. The tin contribution by itself would help to fill the current tin deficit but is insufficient to satisfy consumer demand. General disposals from the GSA will help to provide medium term stability to the market and would thereby be of benefit to the U.S. economy.

I would add here, Mr. Chairman, that the State Department supports the proposal of Commissioner Markon that the authorizing legislation be amended to stipulate that the proceeds ultimately generated by the contribution are remitted to GSA for use in the acquisition of materials required for the stockpile.

In conclusion, I would add that while we have used the term "contribution," we are in effect making an investment in the international tin council buffer stock. This investment will be returned to us at the termination of the agreement in 1981, along with our *pro rata* share of any profits resulting from buffer stock operations. While a profit is not guaranteed, contributions have earned an average return of 8% per annum in past agreements.

Thank you, Mr. Chairman.

Senator HART. Thank you very much. Has the administration submitted a legislative proposal to donate tin to the buffer stock?

Mr. ANGEVINE. No; the administration has not submitted a proposal to this session of the Congress. Such a proposal is contained, however, in H.R. 595.

Senator HART. You don't think it is necessary to submit a separate proposal of that sort in this session?

Mr. ANGEVINE. In view of the amendment of H.R. 595, we do not think it is necessary.

Senator HART. When the proposal to donate tin was made last year, this committee took the position that it ought to be on a reimbursable basis. As I recall, the State Department sought appropriations to pay for the tin. What is your position on this issue this year and how should the donation be financed?

Mr. ANGEVINE. It is our view that the contribution should be made on a basis which would provide that the proceeds from the contribution at the time of the termination of the agreement would go back to the transactions account, assuming one is established. However, we do not believe that, in view of these arrangements, a separate appropriation would be necessary.

Senator HART. This is one of the problems we had last year—whether the State Department, because of its position on reimbursement, had

a requirement to seek appropriations. It was a complicated question as to whose account should be charged for this. I take it that you do not feel that is a problem this year.

Mr. ANGEVINE. I do not feel it is a problem. The only problem you would have is deciding which account it would be if you would decide that an appropriation is necessary. We would feel that one would not be necessary, provided that the proceeds would be returned to the transactions account when it is established.

Senator HART. On the issue raised by Senator Randolph about the international impact of sales, particularly on the other tin-producing countries, I am particularly interested in the effect on Bolivia and other producers. I would like the State Department's views on the 10,000-long-ton sale and the 35,000-long-ton sale, particularly on the Bolivian economy.

Mr. ANGEVINE. I think this is an important question. The Department of State and the administration would not want to cause harm or damage to another country's economy without considering very carefully its course of action.

I would like to point out that one must look at the question of the world price of tin with some sort of perspective. In 1972, the price of tin was \$1.80 a pound. The price of tin now is \$7.16 a pound. This is really a very strong rising trend in tin prices. It occurred over the years and has been of considerable benefit to the country of Bolivia.

I think the second point that should be noted is that, in conducting the disposal program, the Congress has directed the administration to carry out sales in a way that would not be disruptive to international markets. We have received assurances from the GSA that it can be done, and that it will be done. It is the second important element in considering how we should react to the remarks made or statements that we expect from the Government of Bolivia.

The third point here is to look at the structure of production cost among the tin-producing countries. In this respect Bolivia is not typical of the tin-mining industry generally. Its costs are higher, at both the absolute level and in the tendency of the cost to rise very rapidly when world prices would seem to permit it.

Involved in this is a highly progressive tax which at the margin adds 46 cents of tax for every dollar increase in the tin price and which on the average accounts for 25 percent of the cost of production in Bolivia.

We have tried to take all of these factors into consideration—the international market, the economic interest of the United States, the impact on producing countries, including Bolivia—in the disposal program, and indeed we have tried to make a fair evaluation, within the parameters of the disposal program, of how successful we could be in preventing market disruption.

We have concluded that a disposal program conducted with a mind to avoiding disruption to the market can be carried out without significant disruption to the economy of Bolivia. Thank you.

Senator HART. We will hear presently from representatives of that country. I spent a considerable amount of time with the former Ambassador from Bolivia. At that time at least, which was 1 or 1½ years ago, he tended to disagree rather sharply with the policy position of the administration and the State Department on that ques-

tion. Of course, he had a perspective different from a set of economic considerations.

Senator Randolph pointed out, and rightly so, the economic impact of the sale on domestic industries and employment and particularly specific localities. But we spend a good deal of time and resources on assisting governments around the world, particularly those that are trying to stabilize themselves and have democratic, moderate governments and societies and industries; and it seems to me that it is in our interest to continue to do so and not take steps that may have the benign effect of helping domestic industries but may have an adverse effect of hurting actual and potential friends of ours around the world.

I am concerned about the tin sale question particularly as it affects the Bolivian Government and people. I think that country is making a very sincere effort to maintain itself in a democratic fashion and have a stable economy, both of which tend to go hand in hand.

Mr. ANGEVINE. May I comment on that, Mr. Chairman.

Senator HART. Yes, please do.

Mr. ANGEVINE. I endorse very much the sentiment that you have expressed. We do have responsibility. We do have an interest in how Bolivia fares and how its efforts to establish a more democratic form of government proceed. I would only like to point out that we need not, as we see the facts, be inhibited there from carrying out reasonable measures which should not cause injury to Bolivia.

I would point out that when you talked to the Bolivian Ambassador 1 year ago that at that time tin prices were approximately \$5 a pound. They have now risen to \$7.16 a pound. It is the judgment of those who are most capable of making projections of market prices that under no circumstances would the market price of tin fall to levels below those obtaining 1½ or 2 years ago.

So I think we must bear in mind that we are talking about a dynamic situation and one in which the producers of tin for the past 7 years have seen a consistently rising trend in their prices. The movement has been entirely in their direction. A period of stability could be accomplished without injury to those countries.

Thank you.

Senator HART. Thank you very much for your testimony. We appreciate your appearance here this morning.

[Subsequent to the hearing the following letter was received from Charles Angevine, Deputy Director, Office of International Commodities, Bureau of Economic and Business Affairs, Department of State:]

DEPARTMENT OF STATE,
Washington, D.C.

HON. GARY W. HART,
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR HART: I would like to thank you for providing an opportunity for the State Department to testify concerning its request for authorization to make a contribution of tin metal surplus to U.S. strategic requirements to the Buffer Stock of the International Tin Council. I hope that my testimony was helpful to you in deciding the appropriate course of action on stockpile disposal legislation.

I noted with interest the statement of Mr. Jaime Bueno, the London representative for the Bolivian Mining Corporation. I do believe, however, that some

clarification is necessary concerning several of Mr. Bueno's comments, particularly since they may have a bearing on the important decisions which your Subcommittee will make.

First, in his oral testimony, Mr. Bueno indicated that Bolivia supplies 60 percent of U.S. tin requirements. Statistics available from the International Tin Council on U.S. imports of tin metal in 1978 indicate that the United States imported 5,876 metric tons of tin metal from Bolivia, about 12 percent of our total tin metal imports in that year. As in the past, Malaysia was the principal supplier to the United States market, providing approximately 50 percent of U.S. import requirements.

Second, Mr. Bueno indicated in his oral statement that substantial disposals by GSA of surplus tin metal between 1964 and 1965 and between 1973 and 1974 resulted in dramatic price declines for tin metal. In fact, while GSA did dispose of 49,000 long tons of tin metal in 1964 and 1965, tin metal prices continued to increase. New York tin metal prices in 1963 averaged \$1.17 per pound. The New York average price increased to \$1.58 a pound in 1964 and increased again in 1965 to \$1.78 per pound. In 1972 before GSA began disposing of tin metal, the New York price for tin metal was \$1.77 per pound. Despite disposals of 43,000 long tons of tin metal by the GSA in 1973 and 1974, the New York tin price increased to an average of \$2.27 per pound in 1973 and to an average of \$3.96 per pound in 1974. It was only in 1975 that tin prices declined to an average \$3.40 per pound as a consequence of the deep international recession in that year. Other commodity prices also declined in 1975, most of them much more steeply than tin prices. It is noteworthy that according to information obtained from the International Monetary Fund, Bolivian foreign exchange revenues from tin exports sales increased from \$131 million in 1973 to \$230 million in 1974, despite substantial GSA tin disposals.

Third, Mr. Bueno alluded to an alleged destabilization of investment in the tin industry because of GSA disposals. There certainly are investment problems in the tin industry. However, we believe that the poor investment climate for the tin industry principally is attributable to domestic policies in several important tin producing countries, including Bolivia. High export taxes, restrictions on the issuance of tin exportation and development licenses, and limitations on foreign and domestic private sector investment in the tin industry have restricted investment in the expansion of the world tin industry, contributing to the persistent tin shortages and rapidly increasing tin prices that we have experienced in the past seven years. Specifically, in the case of Bolivia, it is noteworthy that while average New York prices increased from \$5.33 in 1977 to \$5.89 per pound in 1978, tin production in Bolivia declined by 8 percent from 32,500 tons to 32,000 tons. Since this was a period when GSA was not disposing of surplus tin, we can only conclude that the domestic climate for investment in the Bolivian tin industry has not been conducive to the expansion of that industry. You may recall that Mr. Simon Strauss alluded to the poor investment climate in tin producing countries in his testimony.

Fourth, Mr. Bueno, in his written statement, alluded to a balance between tin metal supply and demand. According to the most recent statistics provided by the International Tin Council, there will be a deficit between tin metal production and consumption in 1979 which is expected to continue into 1980. While projections are highly dependent on economic performance in the United States and other developed countries, we currently estimate the 1979 deficit to be in the range of 5,000 to 7,000 metric tons. Moreover, because of persistent deficits between production and consumption since 1976, worldwide tin metal stocks have been drawn down to about 10,000 to 12,000 metric tons below historic levels. We do not know the source of Mr. Bueno's statement. We do not know, however, that tin remains in tight supply on world markets, and prices have been high and increasing for the past three years.

Fifth, Mr. Bueno refers to the consultation provisions of the Fifth International Tin Agreement (Fifth ITA). The Fifth ITA does contain consultation provisions concerning disposals from non-commercial stockpiles. Since the United States is a signatory to the Fifth ITA, we have accepted that consultation provision and have indicated our willingness to consult concerning the GSA disposal program with the International Tin Council (ITC) once Congress authorizes disposals. In that respect, the ITC at its Eleventh Session in October 1978 established, with our concurrence, a Working Party on Disposals to establish the mechanisms for consultations once Congress authorizes GSA tin disposals. It is noteworthy that the Government of Bolivia objected to the establishment of the Working Party and declined to be represented on it.

Sixth, and with further respect to the ITC, Mr. Bueno failed to take note of the fact that the ITC periodically establishes a buffer stock price range. That price range contains an upper zone which is established by agreement between producer and consumer members of the ITC. The upper zone represents that level of prices that will cause consumers to defer usage of tin metal in favor of cheaper substitutes. When the market price is within or above the upper price zone, the ITC Buffer Stock Manager must sell tin from the Buffer Stock to moderate prices. The current upper price zone is from \$5.52 to \$5.87 per pound on the auction market in Penang, Malaysia. The current auction price in Penang is approximately \$6.85 per pound (approximately \$7.19 in New York). If the ITC buffer stock had tin metal to sell, it would currently be selling that tin metal. Unfortunately, the Buffer Stock has been out of tin since early 1977. This is one of the reasons why the United States desires to make a contribution to that Buffer Stock. In any case, Mr. Bueno appears to be arguing to your Subcommittee that GSA ought not be allowed to dispose of tin in the international market when market prices are currently so high that the Buffer Stock Manager would be required to sell tin if he had it to sell.

Seventh, in both his written and oral testimony, Mr. Bueno seemed to be comparing proposed GSA tin disposals with the tin dumping practice of the USSR in 1958. I would note that when the USSR dumped tin in 1958 it did so at a time when tin supply exceeded demand and market prices were in the lower sector of the ITC price range. As a consequence of the USSR's dumping of tin in the world market, market prices for tin metal briefly fell below the floor price of the ITC price range. To the contrary, proposed tin sales by the GSA would occur during a period of tight demand when market prices are above the ITC ceiling price. I see no similarity between the past actions of the USSR and the proposed sale of excess tin by the GSA.

Finally, I would emphasize that GSA, under Section 3(e) of the Strategic and Critical Materials Stockpiling Act, is specifically enjoined to prevent avoidable market disruption. In carrying out this provision of law this Administration, as has past Administrations, is prepared to consult with the governments of individual tin producing countries. Moreover, as discussed above, the United States as a treaty member of the Fifth International Tin Agreement is required to consult with the International Tin Council concerning the disposal program and a mechanism already has been established for such consultation once tin disposals are authorized. Further, because of Bolivia's particular interest in the GSA tin disposal program, President Carter on March 6, 1978 by personal letter to then Bolivian President Banzer gave assurances that the tin disposal program would include safeguards to protect the interests of Bolivia and other producing countries. We remain prepared to stand by those assurances should the Congress authorize tin disposals.

I hope that my comments on Mr. Bueno's statement will place that statement in its proper perspective.

Sincerely,

CHARLES ANGEVINE,
*Deputy Director, Office of International Commodities,
Bureau of Economic and Business Affairs.*

Senator HART. Our next witness is Mr. Jaime Bueno, London representative for the Bolivian Mining Corp.

Mr. Bueno, we are pleased to have you here this morning. We have your prepared statement. It will appear in the record as if delivered. If you wish to summarize you may do so.

**STATEMENT OF JAIME BUENO, LONDON REPRESENTATIVE FOR
THE BOLIVIAN MINING CORP., COMIBOL, ON BEHALF OF THE
BOLIVIAN TIN-MINING INDUSTRY**

MR. BUENO. Thank you, Mr. Chairman.

I will endeavor to summarize it or highlight it because it is fairly lengthy. I will beg your indulgence if I extend myself beyond the 10 minutes because I don't think it will be possible in less time.

I will start by thanking you for giving me this opportunity of appearing before you on behalf of the Bolivian tin-mining industry to testify on the legislation leading to the disposal of tin held in the U.S. national stockpile.

The Bolivian tin mining industry has in the past received many setbacks because of previous GSA tin sales programs. We are obviously very aware of and concerned with any new proposed legislation for a new sale. In fact my appearance here is an expression of this fear we have, that we are about to receive another blow.

Our most fundamental economic interests are at stake in the outcome of this disposal legislation.

Also we feel that it is our responsibility, without claiming to be champions of everybody else's interest, to point out the serious threat that stockpile tin imposes on not only producers but consumers and the world at large, but I would say very much so also in the United States because, as you are obviously very well aware, the United States happens to be the largest tin consumer and it produces no tin at all.

Its dependence obviously on foreign sources of tin supply is enormous. Its dependence on foreign sources of supply obviously means that you have an urgent need to safeguard the access of the United States to long-term supplies of tin. Bolivia, you know, is a traditionally tin-mining country. We depend on tin enormously. If you would allow me to give you a few parameters of our dependence on tin we might point out that over the last decade we have only just managed to survive all the world economic upheavals.

We have managed to survive our severely declining ore grades and of course we have managed to survive the GSA tin sales program. We have managed to do it and have somehow managed to produce an average yearly tonnage of about 30,000 tons. The money raised by these 30,000 tons signifies 60 percent of our export dollar earnings.

This 60 percent of export dollar earnings, or 30,000 tons, represents about 15 percent of the world total yearly requirements and about 60 percent of U.S. yearly requirements. The United States is dependent on tin in the manner I have spoken of, and Bolivia is more so. It might help to make a comparison.

A \$1 drop per pound in the price of tin represents to Bolivia about a \$15 drop in its yearly income per capita. That is on a yearly income per capita of not quite \$600. Whereas a \$1 price increase in a pound of tin would represent to each U.S. citizen a yearly expenditure of 50 U.S. cents. If we look at these parameters it is obvious that any price decrease influenced by GSA sales is bound to inflict undue hardship on our economy, on our economic development, and on our social development.

This is why we question when we look at the United States just how much do the American people really benefit from the sale of some 140,000 tons over the past 25 years. We really wonder to what extent the American people benefit through the sale of a further 35,000 tons as announced or proposed.

What we would like you to consider in this gracious opportunity we have is what the real effect of the U.S. stockpile tin releases would have on all consumers. If we look at this tin production and consumption cycle over the past 25 years. Mr. Chairman, we have one sale of GSA tin followed by a substantial price drop for this metal, restrictions on

the production, freezing of investment in tin mining, a deficit between production and consumption, higher prices of tin before, and then a new program of sales of tin by the GSA.

As the result of this vicious circle, the stockpile tin obviously goes to replace normal production of tin and it is made at the expense of restrictions on production.

The tin-mining industry is probably the most underinvested mineral industry in the world. No major new deposits have been found in the last 25 years in the world. At the same time we have had to absorb very rapidly increasing production costs.

Senator HART. Excuse me, Mr. Bueno. Is it the fact that no new deposits have been found a result of the fact that they don't exist or because there is not sufficient capital going into exploration?

Mr. BUENO. The climate for investment is not there because of the uncertainty of future price levels due to this disruptive factor constantly. When I said no major deposits, that is true. Few have been found or developed. But it is known that fields exist.

Senator HART. Thank you.

Mr. BUENO. If we were to thrust our memory back over the last couple of years when we had seen the position of shortfall in production which varied between some 9,000 and 20,000 tons, the usual clamor from consumers came up on the indispensable need for stockpile sales. Ironically, because of the time it has taken the United States to reach the stage that we are witnessing today in the legislation and the delays, the consequent delays, this so-called alarming deficit has now been totally overcome.

We have reached a balanced position and the forecasts for the 1980's show that position is likely to remain.

These developments we suggest not only prove that the tin stockpile sales were totally unnecessary but, more important, they back our argument that it is tin producers who should be encouraged to meet consumption requirements and to overcome normal supply-and-demand imbalances through further promoted production.

We cannot rely on GSA filling the gaps always.

This leads us to a conclusion that the only purpose of GSA disposals is economic. If this is so, then it challenges two of the fundamental provisions of the U.S. Stockpiling Act. One, that disposal shall be fixed with due regard to the protection of producers and the second that the objective of the United States shall be strategic and not economic.

While speaking on this subject, and I appreciate the question raised, Mr. Chairman, the successive and contradictory changes in the GSA sales program do introduce a variable unknown factor in the equation of investment versus rate of return. Nobody can conduct a reasonable estimate on future price levels and therefore everybody waits until a decision is reached.

Everybody waits and a major investor will wait by necessity until a final and fixed policy is reached whereby the stockpile of tin of the United States would be frozen and left for the purpose it was intended for, strategic.

There would be two arguments against it. One is the high cost of warehousing this tin. But surely that is negligible, we feel, compared

with the need for preparedness to defend freedom and democracy, the purpose for which it was bought.

On the other hand, if one looks around the traditionally tin mining countries and one sees the social and political developments, present and probably in the future, we wonder if there is not going to be any guarantee of access to future tin supplies for the Western Hemisphere. This is another observation that certainly is connected, with the one of defense of freedom and democracy.

If you would bear with me, we would like to recall a passage in history not too long ago. This was at the time that the Soviet Union released some 10-15,000 tons of tin to which they had purchased from China and had come to the position that they had overstockpiled. As reported in the New York Times on November 1, 1958, it reads: "President Eisenhower criticized the Soviet Union today for dumping tin on the world market and thereby creating economic crisis in Bolivia and other underdeveloped nations."

The President said that: "This action would seem to demonstrate a singular disregard for the welfare of an underdeveloped nation in contrast with the usual Soviet protestations."

We suggest, Mr. Chairman, that if the American legislature were to decide on another bout of tin sales, it would appear as if the United States were switching roles with the U.S.S.R., an image that we doubt would really be desired at this stage.

We have sometimes heard other reasons to justify the sale such as the fight against inflation. Mr. Chairman, we suggest that in simply switching money in selling tin and obviously lowering the prices and purchasing whichever commodities will be purchased they obviously will rise in price because of additional demand.

The U.S. citizen is going to lose both ways. We wonder really if the inflation level will truly be affected.

But if this happens with that purchase we shall have started another tin cycle, the result of which if we consider that most, perhaps I exaggerate by saying most, but a larger percentage of existing tin deposits not only in Bolivia but all over the world have virtually lost their viability now because they are having to mine extremely low grades of ore—if we have one other cycle and eventually the cycle produces a new round of higher prices, this we suggest would not be desired by the American industry.

We have also heard the justification for tin releases in connection with substitution. I don't think we need to spend much time on that. We dismiss that because the best thing that happened is competition with some other materials that have made some inroads in some uses of tin. We are satisfied in tin plating, for example, which is a major use of tin, investment is as it was if not higher in the whole world.

The last consideration we would like to suggest is the U.S. obligation toward the International Tin Council which has its fundamental objective in reaching a balance between supply and demand. It has economic provisions. It is a market intervention organization and it has mechanisms to do so.

Among its miscellaneous provisions, the International Tin Agreement stipulates the treatment to be given to noncommercial stockpiles to be sold by a participating member.

The participating member is obviously supposed to consult with

the Council on disposal plans and give due consideration to its recommendation. Unfortunately, Mr. Chairman, as one can see, these provisions, which weren't applicable until the V Agreement when the United States joined because no participating member had stockpiles, these provisions allow one member, who is supposed to work as a team to reach a balanced position, to introduce an element of imbalance.

Not only that, it puts the member in the ambivalent position of having to consult and recommend at the same time.

The provisions also stipulate, unlike those in the U.S. Stockpiling Act, that disposal shall be made with due regard to the protection of tin producers, also that disposal shall be made in such a manner and over such period of time that it would not interfere with production. We have heard these statements before but we feel this is a very tall order. In fact we feel it cannot be met.

Mr. Chairman, commodity markets being what they are, the very existence of an additional supply of 35,000 tons to a normal yearly production of somewhat short of 200,000 tons will obviously motivate, first, destocking. Who would want to stock in industry any tin more than a couple of days supply if he can buy off the shelf of the tin tomorrow. It would only postpone purchasing and the combined effect of all this plus the obvious speculative sale that will be promoted because speculators will make as much money on the way down as they do on the way up on a commodity.

Therefore, God help us if on top of that the GSA comes under pressure to step up its sales because it may need to raise money quickly to buy other commodities. We may see a drop in prices that will definitely drive producers to the wall. Whether they can stand it or not will have to be seen but they may have to look to counteractive measures to offset these additional supplies.

What we want to point out, Mr. Chairman, is that no matter how orderly the disposal may be intended to be effected, the net effect will be market disruption. It cannot be helped. Unavoidably, they will create disastrous hardship in the Bolivian economy as it will in other countries. It may be that Bolivia will have to close down some of its most marginal mines or it may be that we will have to keep operating them at a loss. If we did that we would of course have to subsidize the American consumers or world consumers.

I hope I have not taken too long, Mr. Chairman, but in ending this testimony I would most respectfully request you and the members of this subcommittee to ponder the economical and technical and social considerations I have listed which definitely strongly advise against the U.S. stockpile releases. If we could have a common objective and that would be to attain a healthy and growing tin industry, strengthened by sound investment in new production so badly needed which will insure stable and adequate long-term tin supplies, then, Mr. Chairman, the only advisable course of action for the U.S. Government would be to shelve all the proposed legislation for further stockpile tin sales and once and for all clear the way for mining and processing investment projects which are seriously needed if we are going to have tin in the long term.

I thank you again, Mr. Chairman.

[The prepared statement of Mr. Bueno follows:]

PREPARED STATEMENT BY JAIME BUENO, LONDON REPRESENTATIVE FOR THE BOLIVIAN MINING CORP. (COMIBOL) ON BEHALF OF THE BOLIVIAN TIN MINING INDUSTRY

Mr. Chairman and members of the subcommittee, I thank you for giving me this opportunity of appearing before you, on behalf of the Bolivian tin mining industry, to testify on the legislation leading to the disposal of tin held in the United States national stockpile. My testimony will refer to the tin release bills, in particular, and may of necessity touch upon certain aspects of American stockpile policy in general.

The Bolivian tin mining industry, having repeatedly experienced setbacks because of past disposals of United States stockpile tin, has learned to become more aware of, and concerned with, the passage of American legislation to this end. My presence at this hearing is, therefore, an expression of the growing fears that, once again, we are in the throes of receiving yet another blow. It is foremostly because our fundamental economic interests are at stake in the outcome of this legislative process, that we welcome the opportunity to be heard and, without claiming to be the champions of all parties concerned with the world's tin industry, we wish to avail ourselves of this opportunity to signal, on its behalf, the serious threat that proposed American stockpile tin disposals pose upon the livelihood of tin producers, and on the activity of processors and consumers of tin, including in no small way, those in the United States, a country which perhaps ironically happens to be the largest tin consumer and has no tin production of its own. Members of this Subcommittee will no doubt have reflected upon American dependence on foreign sources of tin supplies and, therefore, on their urgent need to safeguard its long-term supply of tin.

Please allow me first to draw your attention to some aspects which illustrate Bolivia's enormous dependence on tin. Through concerted efforts and proportionally significant investment in development of our existing mining operations, and through improvements in our technology in ore dressing, our tin industry has just managed to withstand the combined impact of world economic upheavals during the present decade, the declining ore grades and of past stockpile disposals. We have somehow managed to maintain a steady yearly average production of about 30,000 tons of tin. This output, when related to our unsuccessful efforts at economic diversification, places us today in a situation of as much dependence on tin as we have ever had. In fact, close to 60 percent of our export earnings still come from this mineral.

Fighting the most adverse geographical and environmental odds at the highest mining altitudes in the world, the Bolivian tin mining work force is responsible for about 15 percent of the world's tin requirements and for about 60 percent of American tin requirements. It was this same Bolivian work force which, during World War II, contributed to the American war effort as the single supplier of tin at prices unmarked by opportunism.

Our annual income per capita does not reach \$600. Thus, a \$1.00 per pound drop in the price of tin represents a reduction of \$15 in Bolivia's annual income per capita. By contrast, the increase of \$1.00 per pound of tin represents an additional expenditure of \$0.50 per year for each United States inhabitant. The true impact of these figures can be better appreciated if one takes into account the American income per capita of some \$7,000.

In the context of the above economic parameters, the market depressive effect of American stockpile releases obviously inflicts undue hardship upon our economic and social development. Hence our close interest in American stockpile legislation and our understandable reaction, when we qualify such releases as an act of economic aggression.

The situation begs the question: How much did the American people really benefit from the sale of some 140,000 tons of stockpile tin over the past 25 years, and to what extent will the American economy improve by the proposed release of a further 35,000 tons? I dare to suggest that realistic and responsible American citizens would agree that there was no benefit nor could there be any improvement whatsoever.

There is, however, another more pertinent question to be raised which has to do with the American dependence on tin and the real effect of United States stockpile tin releases on its long term supplies of tin. I would now like to address myself to this much more important matter.

The tin production and consumption cycle over the past 25 years has been one of: sales of tin by the GSA, substantial price drops of this metal, restrictions on

the production, freezing of investment in tin mining, deficit between production and consumption, higher prices of tin and, new sales of tin by the GSA.

As a result of this vicious circle, wherein the dumping of stockpile tin is carried out at the expense of production and through externally induced production restrictions in producing countries, the tin mining industry is by now one of the most underinvested of mineral industries. No major new tin deposits have been developed during the past 25 years. Conversely, the declining grades of ore and consequent need for much larger volumes of ores to be treated for a given metal output, coupled with the considerably higher price of imported mining equipment and materials, and increased transport costs have in the meantime brought about considerable increases in the cost of tin production.

The past practice of stockpile tin sales, particularly in the alarmingly high tonnages sold over the periods between 1964-65 and 1973-74 during which the GSA disposed of 49 and 43 thousand tons of tin respectively, resulted in the postponement if not shelving of investment in exploration and development in both existing and new mining deposits.

It has been claimed by supporters of GSA tin sales, that these were necessary to offset production deficits. The truth of the matter being completely the opposite, that is, that GSA sales have later resulted in production deficits. If we were to cast our memory back over the past couple of years, when statistics indicated production shortfalls of between 9,000 and 20,000 tons, we then repeatedly heard the famous old clamour for the inevitable and "indispensible" need for stockpile tin sales. Well, the very complexity and delays in passing pertinent United States legislation have ironically provided a clear case against the need for such sales. Because in the time it has taken the United States Congress to reach the stage we are witnessing today, the so-called alarming deficit has been totally overcome. Statistics show that, in fact, there is not only a current balanced position between supply and demand, but that forecasts into 1980 show this position most likely to remain.

These developments not only go to prove that stockpile tin sales were totally unnecessary but, more important, they back-up our argument that tin producers should be encouraged to meet consumption requirements and to overcome normal supply and demand imbalances through further promoted mine production, rather than consumers relying on GSA sales which discourage production and scare away investment in new production.

The experience of the last two years also builds support to claims that, in the long run, the net purpose of GSA tin disposals can only be economic. Such purpose must be qualified as very unproductive and shortsighted. Furthermore, it challenges two fundamental provisions of the Stockpile Act.

The first, that disposals shall be fixed with due regard to the protection of producers, processors and consumers against avoidable disruption of their usual markets. The second, that the objective of United States stockpiles shall be strategic and not economic.

On the subject of stockpile policy, there is need to point out yet another negative aspect of United States stockpile policy and tin disposals which, over the past 25 years, has had a serious depressive effect upon the tin mining industry. I refer to the ever changing attitude of United States experts and their varying appraisals regarding the tonnage objectives of the strategic reserves. Successive and contradictory changes in strategic policies have introduced into the tin mining industry the biggest and most variable unknown factor in the equation of investment for new mining operations and expectative rates of return. They have made it impossible to judge the viability of new investment ventures, some of which may have to be postponed until a final and fixed policy is adopted whereby, once and forever, the stockpile tin is frozen and left to fulfill the strategic purposes for which it was originally intended.

I would suggest that if such a policy were agreed on, the tin mining industry would receive the biggest and most desired impulse that it has been clamouring for so many years. How much simpler a life would tin producers, processors and consumers then have! Bolivia and some other tin producing countries would no longer have to suffer economically because of changes in strategic goals.

But some might ask: What is the cost of the United States to reach this healthy stage? The answer to that question might be: In the light of social and political developments in and around some traditional tin producing countries, what guarantees are there of uninterrupted access to tin supplies? Surely, the comparatively small financial cost of maintaining current strategic levels is

negligible when compared to the value of preparedness to defend democracy and freedom.

At this stage, if I may be allowed a slight digression, it might be interesting to recall an incident protagonized by another government under similar circumstances to those that the United States government finds itself now. It is particularly interesting to note the position of the American government at the time as reported by the New York Times on November 1st, 1958 (page 31) which reads: "President Eisenhower criticized the Soviet Union today for dumping tin on the world market and thereby creating economic crisis in Bolivia and other under-developed nations. The President said that "this action would seem to demonstrate a singular disregard for the welfare of under-developed nations, in contrast with usual Soviet protestations."

If American legislators were now to decide on yet another bout of tin sales, it would appear as if the United States were switching roles with the USSR. It seems hard to believe that is a conscious choice for the present government of this country known to be the champion of human rights.

If some people would have us believe that tin prices are artificially high and that disposals of stockpile tin help to fight American inflation, we would suggest that, on the one hand, according to United Nations estimates, the current price of tin of about \$7.00 per pound is equivalent to only \$2.31 per pound at constant acquisitive value of dollars during the period of 1953-55 when stockpile tin was purchased. Perhaps the truth is that tin prices have been kept at artificially low prices for too long. On the other hand, we would suggest that if monies generated from tin sales to unavoidably lower than current market prices are invested in the purchase of other raw materials for stockpile at unavoidably higher than current market prices, the American people will lose money both ways and, in the end, inflation levels will not be lowered at all. In the process, another of the tin cycles will have been put in motion and with so many existing tin mining operations having already virtually lost their economic viability, who knows what size the next production shortfall might be and how much higher tin prices might show the next round.

If danger for substitution due to higher tin prices be another justification for stockpile tin releases, it could only be hoped that more convincing evidence might first be found on which to base such a weighty decision. Studies and conclusions on tin substitution, while pointing towards a healthy welcome competition from other products which have made inroads into some tin uses, reaffirm that the rate of investment on tin plating plants, the largest use for tin, has if anything increased.

In reviewing the various roles and responsibilities of the American government regarding disposals of its strategic stockpile tin, we might finally look at its position with regard to the International Council (ITC). The ITC is a specialized organization dedicated to the stabilization of tin prices, which groups together 30 countries sufficiently interested in tin to subscribe the V International Tin Agreement (ITA).

The fundamental objective of this institution, unique in that it implements the only international commodity agreement containing economic provisions and necessary mechanisms for market intervention, is that of achieving a balance between supply and demand. When achieved, the balance is reflected in tin price levels lying between a maximum and a minimum price range which is revised from time to time. To this end, the ITC is provided with a Buffer Stock sufficiently large to absorb normal excess tin supplies and so prevent the market price from falling too steeply whilst, conversely, it will release such accumulated stocks when necessary in order to prevent the market price from rising too sharply.

Among the miscellaneous provisions in the ITA, there are those which stipulate the treatment of intended sales of non-commercial stockpiles held by participating countries. The United States being the only known country holding such stocks made these provisions inapplicable until the current V Agreement came into force and the United States became a participating country. The provisions stipulate that a participating country desiring to dispose tin from its non-commercial stockpile consults with the Council concerning its disposal plans and gives due consideration to the recommendation of the Council. That is to say, that the country in question being a member of the Agreement is unfortunately allowed to introduce an element of imbalance into the market, working somewhat against the attainment of the main objective and is also placed in the ambivalent position of having to both consult and recommend on the matter.

The provisions also state, *inter alia*, that such disposals shall be made with

due regard to the protection of tin producers against adverse consequences on the investment on exploration and development of new supplies and to the **health and growth of producing countries, i.e. similar words to those in the stockpile disposals act.**

The provisions further stipulate that disposals shall be made in such amounts and over such periods of time as will not interfere unduly with production and employment and will avoid creating hardships to the economies of participating producing countries.

That last provision is obviously impossible to meet by the country disposing of stockpile tin. Commodity markets being what they are, the very existence of 35,000 or even 10,000 tons of additional supplies in the pipeline, will automatically and quite naturally postpone purchasing until the last moment and will motivate general commercial de-stocking and induce speculative sales. The combined effect will weigh heavily on the market and produce a dangerous and severe price drop.

There is also the great possibility that GSA authorities faced with the need to acquire other raw materials to be stockpiled, the price of which will be rising sharply due to the known additional demand, will fall under pressure to intensify tin sales. The resulting added downward pressure on tin prices will drive producers to the wall!

Producers at large may or may not be able to stand the pressure. They may even have to look for counteractive measures to offset the additional supplies and their negative effect on their export earnings.

The point we would like to underline is that there is no such thing as an orderly market. No matter how orderly the disposals may be intended to be effected, their net effect will be market disruptive and, unavoidably, they will create disastrous hardship in the Bolivian economy. No one, but no one, is in any position to give us any assurances that this will not happen. We have seen it all before! Should stockpile tin be released on this American government's decision, Bolivia may well have to close down some of its mines or keep them in operation at a loss, thus forcibly having to subsidize the American tin consumer industry and its wellbeing. As suffer we will, it would be, we repeat, a decision hard to believe as a conscious act of the present American government.

After holding the first elections for President and Congress in Bolivia since 1966, any economic hardship inflicted on us might bring about serious setbacks in our democratization process.

In ending this testimony, I most respectfully request you, Mr. Chairman, and the members of the Committee, to take a little more time than was available in this opportunity, to ponder on all the economic and technical consideration I have listed, which so strongly advise against United States stockpile tin releases. If our common objective is to attain a healthy and growing tin industry, strengthened by sound investment in current and new production that will ensure stable and adequate long-term tin supplies, the only advisable course of action for the United States government would be to shelve all the proposed legislation for further stockpile tin sales and clear the way for mining and processing investment projects.

Senator HART. Thank you, Mr. Bueno for a very helpful statement.

There seems to be substantial factual disagreement between yourself and the Bolivian Government and our own State Department as to the effects of this proposed tin sale on the Bolivian economy. You have heard the State Department witnesses and GSA witnesses state that in their judgment the sale will not have an adverse effect and referred particularly to the increased costs of mining and milling of tin in Bolivia and the fact that the market price has been substantially increased over the last year or two and that returns on tin production now are very high or relatively high.

How do you respond to those statements made by American officials?

Mr. BUENO. Unfortunately, Mr. Chairman, I must disagree with them. Taking them probably not in the same order, the price of tin has probably been kept too low for too long. If we look at this in constant terms from 1953 to 1955 when most of the stockpile was acquired, the \$7 per pound that we are paying today for tin is equivalent to

\$2.31 in constant terms. I believe the other question is as to whether the sales would have an impact.

As I said before, it is unavoidable. If there is another supply in any market and it has to be absorbed, it can only be absorbed at the expense of future production. I am not sure I got the other part of the question.

Senator HART. The statement was that prices had been going up, but I think your response is that that is largely attributable to inflation and is not a real income to the producing companies.

Mr. BUENO. Not at all. Our production costs have gone up due to the same factors, of course, and others. I have heard statements today as to Bolivia's higher cost of production than others. While this is true, I haven't heard any statement regarding the very special kind of mining we have in Bolivia. We have to mine at altitudes that are hardly bearable by any human being and we mine very deep underground deposits that are very difficult even to mechanize because of the conditions.

Our ore grades are very poor. All these factors combined with others we cannot avoid, the cost of energy, cost of transport, which are beyond our control, make us a very high-cost producing country. On the other hand, we haven't had a real opportunity over a couple or more decades to find the money. We have not had a return on our tin sales sufficient enough to invest as much as we would like and even under those conditions improve productivity.

We have done an enormous effort, I might add, in the processing field, in ore dressing and we have made enormous inroads there. To us to be 1 percent more in our ore dressing represents something like \$600,000 or \$700,000 a year, just 1 percent improvement in our ore dressing and tin recovery. We do not believe we are in any way so excessively high cost. We are barely 6 or 7 percent, maybe 10 percent higher than some of the easiest tin fields to mine, say, in Southeast Asia.

For example, they have production costs that are not more than 10 percent lower than ours.

Senator HART. Let me understand your position on the international buffer stock if I can. Is it your position that inevitably the concept of the tin buffer stock is bound to fail in terms of its stated goal of protecting stability in the marketplace because of unilateral actions taken by a country such as the United States, or not?

Mr. BUENO. It would be extremely difficult for the agreement to operate as it was meant to. It does have a buffer stock, it does have the money that will obviously eventually absorb the excess supply and that is how it was designed. I don't mean it will fail, but it means that GSA tin released will only be transferred from one coffer to another and the effect will remain there for probably even a longer period unless, of course, other governments who would very much like to possess tin stocks somehow intervened and bought it somewhere along the road.

The only source of supply for tin at the moment is the GSA. If we look ahead, if conditions don't alter and production is decreased, I think the U.S. Government will be more than pleased to have 200,000 tons of stockpiled tin, come another decade. We have a feeling that many governments will be looking for that kind of stockpile.

Senator HART. Doesn't the idea of the very existence of a U.S.

stockpile threaten the market inevitably? The fact that the United States has a considerable amount of tin, isn't that a destabilizing fact itself when it is understood that at any time, any amount of that could be disposed of unilaterally by the United States?

Mr. BUENO. So much so, Mr. Chairman, that we have come to call it the sword of Damocles. But if we finally heard that the U.S. Government adopted a policy whereby this will be kept for strategic reasons, and it might well be needed for these reasons, if that was the policy that would dispel all the fears, I think investors, both national and foreign, will begin to calculate, "All right, we have a long way to go now; let us get down to it."

But it is the fact that we have these legislative processes every now and then that bring in the element of uncertainty. Every time we hear this, everybody puts the money back in the coffers and says, "Let us wait for the outcome."

Senator HART. We have taken part of that step with the policy bill that the Senate passed. The whole purpose of that bill was to try to restore to the stockpile the principal goal, if not the single goal, of protecting the national security and making it in literal terms a national security stockpile and not an economic instrument.

Even then you still have the factual dispute as to what is necessary, what level of tin is necessary to protect the national security. That is the sword of Damocles that I think will always be there because times change and people's opinions change as to how much is enough. Although one administration may decide that a certain number is necessary to protect the national security, 4 years later it may for one reason or another, technology or whatever, then decide that a substantially less amount is necessary for national security and the tin be disposed of.

Once again, if the policy of the United States is to look at the stockpile only for national security and not for economic purposes, you would have a disposal proposed that would destabilize the international market.

Mr. BUENO. Yes, indeed. As I said before, it is precisely the changing appraisals of experts on what are the right strategic goals and then the constant changes or legislation that do put enormous stress.

On the one hand, even on the same day, not even from year to year, if you ask two experts, one will say you need 130,000 tons for a strategic goal and the other one will say you need only 32,000 tons. The discrepancy is enormous. Why?

If we were discussing a metal with enormous production elasticity and deposits all over the world, it is feasible that one could play with figures without risking security. But when we are talking of a metal that is produced virtually in only four countries, three of which are in Southeast Asia and the other one is Bolivia, and only four countries produce something close to 80 percent of the world requirements, with due respect, Mr. Chairman, I would suggest that it is a metal that is under serious danger. It has no elasticity, it has been almost played out.

Therefore, estimates on these data should not be just casual. I don't believe any econometric model will give the answer to what the reaction of the market will be or what the political outcome in the world will be. Under those circumstances, it would be safest simply to sit on

that tin. If an act could be approved whereby this is frozen for a very long period, this in the end would be an enormous saving for the American citizen.

Allow me to expand a little. If you were to sell 35,000 tons of tin—and from figures I heard in other testimony you need \$130-odd million of requisition in fiscal year 1979—if in the process of selling 30,000 tons of tin the price drops \$2 per pound, which is very likely to happen, you will lose from present value \$75 million. That would be the cost of \$2 per pound lower on 35,000 tons of tin.

I would suggest, with due respect again, that the best policy would be to sit on it and sit on it not only perhaps for the safety of the United States but, if the distinguished Senator would care to remember, during World War II Bolivia was the single supplier to the American war effort. We improved our production to something like 45,000 tons and the price at which we sold it was absolutely devoid of any opportunism or intent of taking advantage.

It was a sort of dependence on one country's production. Even that cannot be guaranteed in the future. Unless we have a common goal to improve tin mining around the world and to defend all the democracies that we do feel are dear to us, in this concept I do share the remarks on the most satisfying changes we are witnessing during the last year or so in my country and it would seem as though we are about to achieve what the Bolivians have always cherished, if we can only put aside some of our individualism or other defects that we may have.

Senator HART. The committee would appreciate any specific economic projections or statistics you may have as to the impact of the proposed sale on the Bolivian economy in any detail you wish to provide them. That will be extremely helpful to us. We appreciate your statement.

Let me just say that it is unfortunate that we cannot calculate in dollar terms the importance to this country of a democratic Bolivia with a sound economy. That would make it easier for us to weigh these considerations. I am hopeful that this committee and the administration will constantly keep in mind that that goal of a stable Bolivia is a very important goal for us and in our interest.

The short term benefits, even marginal, fractional effects on inflation in this country could well be offset by destabilizing an ally and a friend. So we thank you for your appearance here this morning. We appreciate your statement.

Mr. BUENO. Thank you very much, Mr. Chairman. We will gladly later provide you some figures that might further illustrate the case.

Senator HART. Thank you.

Before we hear from our next witnesses, I would like to have a brief recess for approximately 5 minutes.

[A brief recess was taken.]

Senator HART. The hearing will come to order. Our next witness is Mr. Simon D. Strauss, representing the American Mining Congress. Mr. Strauss is well known to the committee. We welcome his return.

STATEMENT OF SIMON D. STRAUSS, AMERICAN MINING CONGRESS

Mr. STRAUSS. Thank you, Mr. Chairman. Good morning.

My statement is brief, Mr. Chairman. I will skip a little of it.

My name is Simon D. Strauss. I am appearing on behalf of the Minerals Availability Committee of the American Mining Congress to testify in regard to S. 1397, a bill to authorize the disposal of tin, silver, and industrial diamonds from the national and supplemental stockpiles.

I am a director and was formerly vice chairman of ASIRCO Inc., a company that is a major producer of silver and a substantial consumer of tin.

The American Mining Congress is an industry association that encompasses producers of most of America's metals, coal, industrial and agricultural minerals; manufacturers of mining and mineral processing machinery, equipment and supplies; and engineering and consulting firms and financial institutions that serve the mining industry. AMC member companies operate on public and private lands in all 50 States.

Mr. Chairman, before turning to the bill on which you are holding hearings, I would like to express the appreciation of the Mining Congress, and indeed the entire mining industry, for the work done by you and your committee, as well as by Congressman Bennett and his committee in the other chamber, in regard to stockpile policy.

The legislation that is now moving toward final enactment into law that provides for the channeling of all proceeds from stockpile disposal into earmarked funds for stockpile purchases marks a significant strengthening of the defense and security aspects of the stockpile.

Over the last 18 years, the mining industry has repeatedly expressed its concern that some actions in regard to the stockpile appeared to be motivated by economic and budgetary considerations rather than by security needs. However laudable these other motivations may have been, to the extent that they undermined the original purpose of the stockpile, they raised dangerous issues.

The policy bill which Congressman Bennett and you have guided through the Congress in our judgment is entirely sound and will add to national security. Our congratulations to you.

On past occasions, the American Mining Congress has raised questions as to the objectives, targets, or goals set for specific commodities. These have been established by an interagency committee in relation to military and essential civilian needs.

Direct defense requirements obviously involve restricted information to which the public, including the mining industry, does not have access. Nor is it appropriate for laymen to pose as military strategists or experts.

Nevertheless, based on experience in the production and use of mineral products, it should not be surprising that industrialists will have opinions as to the adequacy of the individual commodity targets.

There have been reports in the press that new goals may be announced shortly by the administration. We are naturally interested in what they will show. Meanwhile, however, the proposed releases are based on the most recently published goals, amounting to 32,499 tons of tin, no silver, and 5,559,000 carats of industrial diamonds.

The American Mining Congress expresses no view with respect to industrial diamonds, since its membership includes no producer of that commodity and is only indirectly involved in its consumption.

With regard to the goals for tin and silver, however, the American

Mining Congress has previously stated its view that the tin goal, 35,000 long tons, appears to be too small and the silver objective is incomprehensible.

The United States is almost wholly dependent on imports of primary tin, having only a negligible domestic production as a byproduct of molybdenum operations. The secondary production of tin through recycling is small and cannot under any circumstances supply more than a modest fraction of U.S. needs.

Direct military use of tin may be small, but the vital role tin plays through the canning industry in the preservation and distribution of agricultural products cannot be ignored. As a constituent of various bronze products and as an essential in the output of solder, tin also has a vital role. Absence of tin supplies could seriously inhibit industrial activities over a broad range.

On the average the United States has imported about 50,000 tons of tin annually, when stockpile sales have not been capturing a sizable market share. To protect against a 3-year emergency, as provided in the new policy legislation, an appropriate stockpile goal would appear to be between 125,000 and 150,000 tons of metal, not the 32,500 which is presently the goal.

Presently, the stockpile actually contains about 200,000 tons. Consequently, it would appear that the sale of 10,000 tons of tin, as proposed in S. 1397, is an appropriate step. Tin prices are high due to good demand and limited industrial stocks. Orderly sale of the 10,000 tons would apparently be accomplished without disruption of the market.

I would like to comment that as the previous witness indicated, between July 1, 1973, and June 30, 1974, some 40,000 tons of tin were sold by the stockpile. During that same period of time, however, the price of tin rose. I want to emphasize the point that sales will not necessarily push the price down. They did not in the last period of heavy stockpile liquidation which was 1973-74.

In regard to silver, however, the proposed sale of 15 million ounces appears questionable. Not that this would create a serious problem in terms of disposal. On the contrary, the amount could readily be absorbed by the market and the Government would realize a substantial sum, probably well in excess of \$100 million, from the disposal of this precious metal.

Among silver producers there are some who frankly state that they would prefer to see the strategic stockpile liquidated and the zero stockpile objective attained. The amount held, 139.5 million ounces, represents less than one-third of a year's industrial consumption in the free world. Once sold, it would no longer exert whatever restraining influence it has had on a market that has advanced very sharply in price in the last 12 years.

Many of them say, "Why fight City Hall? Let it be sold." My feeling about that is very much to the contrary, not as a silver producer, but simply in view of my own experience and knowledge of the essential role that silver plays in the military and industrial strength of the country.

The General Accounting Office in a recent study concluded that there was no need for a government stockpile of silver. I have to respectfully agree with the General Accounting Office. One of the rea-

sons advanced for this was that there exist substantial stocks of silver in the warehouses of the New York and Chicago commodity exchanges where silver is traded.

This may have been true in the past but these stocks are diminishing, having dropped by 7,153,000 ounces since the first of 1979. On any day, silver can be taken out of that warehouse. To count on that as a source of supply for this country in a period of need is to count on something that simply may not be there.

There is no way of forecasting what these stocks will be at the time when an unpredictable emergency arises, nor is it possible to estimate what the cost will be of, in effect, expropriating such privately held inventories. With regard to no other commodity has the suggestion been made that privately held stocks on commodity exchanges be included in calculating the strategic stockpile. Why single out silver?

GAO also laid great stress on the large production of silver in Mexico and Canada, on the theory that these supplies would be available to the country in the event of an emergency. I point out that Mexico and Canada are producers of oil. How true has this been with regard to Canadian and Mexican oil in the present crisis?

No criticism of these neighbors is implied in stating that they will make their own decision in regard to disposal of their silver output and that U.S. policy cannot and should not automatically assume that silver from these countries will flow here in time of crisis.

Domestic silver production is less than 40 million ounces a year from mines. There is a substantial secondary production of salvaged silver on which reliance can be placed. But imports into the United States will range from 50 million to 75 million ounces a year under normal conditions.

In World War II, huge stocks of silver were available in the U.S. Treasury and very large amount were diverted into various war-related channels. Direct sales to industry—quite apart from silver lend-leased to our allies or silver substituted for copper in Government-owned plant facilities—amounted to about 150 million ounces, somewhat more than the present stockpile.

More silver was provided by the Treasury to U.S. industry during World War II than is contemplated in the stockpile, and Canada and Mexico were available to us during World War II. Industrial uses of silver, excluding its decorative or coinage applications, continue to rise.

As someone who has studied the silver situation over a period of more than 40 years, I am frank to state that the conclusion that no silver is needed for the stockpile is incomprehensible, except for the fact that it is an easily salable item.

The only possible explanation is that it is something that can very readily be sold. That is certainly true but we need silver in our stockpile. If the plan to sell all the stockpile is eventually followed, there may come a day when that decision will be bitterly regretted.

Before concluding, I should like to refer to the bills introduced last year with regard to acquisition of copper for the stockpile. The present holding is less than 2 percent of the goal. The mining industry at that time suggested that the Government would do well to take advantage

of the low prices and large stocks then prevailing to begin an orderly acquisition of this essential metal.

The legislation was not then enacted. Meanwhile, the copper market has strengthened and a buying opportunity has been missed. Even today, however, copper prices appear to be below the level required to insure expansion of productive capacity to meet future growth in the world economy.

It should be reiterated that the mining industry is a firm supporter of the concept that the strategic stockpile should not be used for economic purposes. On the other hand, since prices of strategic commodities are volatile, it is equally true that timing in purchases for the stockpile is an important consideration in insuring that the taxpayers' funds are spent in a frugal manner.

Inflation is a fact of life. Over the long pull, most analysts of the copper industry expect substantially higher prices in this commodity. Consequently, in planning for acquisitions, to which the General Services Administration witness referred, the stockpile authorities should carefully monitor markets of those materials in which large deficiencies exist, such as is the case with copper.

Thank you for this opportunity to present the views of the American Mining Congress. I will be pleased to answer questions.

Senator HARR. Thank you, Mr. Strauss, for your usually fine and comprehensive statement.

First, on the tin question, I take it that it is your position, the Mining Congress position, that the proposed sale or disposal of tin can be accomplished without substantial disruption of the international market?

Mr. STRAUSS. Yes, it is, sir. I would like to say that I felt the previous witness drew an interesting parallel when he referred to the fact that President Eisenhower was critical of Russian sales of tin some years ago. At that time the price of tin was below the International Tin Agreement's floor.

Today the price of tin is well above the International Tin Agreement ceiling. So, I do not think you can really draw that comparison that was made.

Senator HART. To what degree in reaching that conclusion have you or your organization done any kind of economic analysis of particularly the Bolivian tin economy?

Mr. STRAUSS. I happen to have been born in Peru, lived in Chile, spent time in Bolivia. I sympathize and understand the problems of the Andean countries quite well. I should say that we have not made any detailed economic studies or used computers or anything of that sort, but I think some statements need to be made.

One is that one of the reasons that there has been so little investment in tin has been the punitive tax attitude taken by many of the tin-producing countries and specifically in the case of Bolivia, it is relevant to point out that the three largest tin-mining companies in Bolivia were nationalized by a previous Bolivian government. That always raises problems and causes hesitation in regard to new investment.

This is the reason why there has been perhaps less investment in the tin industry than might have appeared desirable.

I think also that we need to view the mines of tin in perspective in relation to the prices of other metals. Tin is the only one of the metals

that has been subjected to an international agreement to stabilize the price. Yet of the metals, aluminum, copper, lead, zinc, nickel, and tin—these are the bulk metals—the price of tin has risen to a greater extent.

I sympathize with what the previous witness had to say about inflation but these factors also apply to the other metals. If you take the price of copper or aluminum and put it in constant dollars in terms of the 1955-57 prices, the prices of those two metals is well below what they were in 1955-57 whereas the price of tin, while it is \$2.21, which I think was the figure he quoted, would compare with the prices then prevailing of about \$1.50 a pound. So, tin prices have done better than the prices of other metals.

The cost factors which have been referred to apply to all mining industry. We have had a sharp runup of costs for all of them. Investments have gone forward in the other metals, in copper, aluminum, lead, and zinc, but I suggest that one of the reasons that there has not been more investment in tin is the question of climate for the investment, not the price of tin per se.

Senator HARR. Finally, on silver, although you strongly endorsed a silver goal for the stockpile, I take it from your prepared statement or your earlier remarks that there is some abvillance in the industry itself?

Mr. STRAUSS. Yes. There are some silver producers who are saying, "We are tired of fighting. It is not going to hurt the market. Let it go." So, I am not really speaking from the standpoint of the mining industry although my good friend, Colonel Franklin, might disagree with that.

I sincerely believe, sir, having been on the Washington scene at the time of World War II and having seen the vital role that silver played in World War II in the three categories I mentioned in my prepared statement, that if there were no silver in the stockpile and virtually no silver in the Treasury that this country could find itself in a very difficult position.

I believe there should be a silver stockpile not because of the interest of the silver mining industry but from a military standpoint.

I have to say that I thought that the GAO report on this question was not up to the usual GAO standard of careful analysis. It seemed to me that it was a superficial job, particularly the reference to the warehouse stocks that exist in the commodity exchanges.

Senator HART. Thank you very much. I particularly appreciate your kind words about our efforts to reform the stockpile. Thank you again for your appearance.

Mr. STRAUSS. Thank you.

Senator HART. Our next witness is Mr. Thomas Carey. Mr. Carey represents the Berisford Metals Corp. We are pleased to have you with us.

STATEMENT OF THOMAS CAREY, BERISFORD METALS CORP.

Mr. CAREY. Thank you, Mr. Chairman.

My name is Thomas E. Carey. I am the president of Berisford Metals Corp., which is a member of the S. & W. Berisford Group,

principally involved in the merchandising, processing and distribution of key raw materials.

Berisford Metals, with headquarters in New York City, is specialized in the nonferrous metals business and is heavily engaged in the world trade of tin. It is correct to say that we are among the major suppliers of tin to the U.S. markets.

We are the international agents for Empresa Nacional de Fundiciones, ENAF, the Bolivian State Tin Refinery.

It is our considered opinion that the disposal of tin from stockpile would be contrary to the best interest of the United States. There is now in fact a near-term excess of tin supply over demand worldwide. Disposal of stockpiled tin would so aggravate this imbalance that the consequence will be rapidly and sharply reduced tin prices.

Reduced prices will surely curtail development and expansion of tin mine and smelters, which will lead to long-term shortage of the metal needed to meet projected requirements for American consumption during the eighties. This will drive up to exaggerated levels the long-term prices which American consumers will be forced to pay for the metal.

The extensive data supplied by the market research firm, Rayner-Harwill, member of the Berisford Group, in its third Annual Review of the World Tin Industry, dated June 1979, factually supports our conclusion. I am pleased to supply this distinguished committee with copies of the Rayner-Harwill Review for your consideration. Quoting from the Review:

We currently believe that the tin market is moving into surplus and that as this becomes more evident the current tight supply situation will ease leading to a gradual decline in tin prices. Should the Americans eventually decide to sell tin from their GSA stockpile this will cause a rapid decline in the tin price.

This refers to the aggravation of the present near-term imbalance of supply over demand which the stockpile disposal would cause. Quoting again from the Review as it deals with the long-term production outlook:

We believe that with the advent of a further explosion in oil prices, gravel pump production (of tin) will be adversely affected in South-East Asia. Consequently, we anticipate that the number of gravel pump mines will decline causing production levels in South-East Asia to more or less stagnate.

For your reference, gravel pump production accounts for some 50 percent of the output of Malaysia and Indonesia and 35 percent of the tin mined in Thailand.

Next to Southeast Asia, Bolivia ranks as the world's second largest producer of tin. These two regions together account for most of the world tin mine production. The Rayner-Harwill Review reports:

There is no shortage of tin in Bolivia so that production will be dependent upon the tin prices and costs involved in capital expenditure.

Thus, in depressing prices by aggravating the near-term excessive supply of tin which will be the consequence of stockpile release, the long-term mine and smelter development already adversely affected by worldwide inflation will be further curtailed.

Without any releases of tin from stockpile, the projected near-term surplus of tin is not expected to be of such a magnitude to bring about a major extended price decline and, therefore, production plans can

be expected to keep approximate pace with anticipated consumption requirements.

Next I would like to discuss a problem about which we are all now so acutely aware, namely the relatively higher amounts of energy needed to produce aluminium, tin's principal competitor; a minor deficit of tin could develop as happened during 1976. These temporary imbalances are nevertheless corrected by natural economic forces without seriously disrupting future patterns of supply and demand.

However, with the release of tin from stockpile the price of tin will decline to uneconomic levels in constant dollar terms, discouraging production and leading eventually to a major long-term deficit of tin supplies needed to meet our expanding industrial requirements.

The sharp price reduction that would result from the decision to release tin from stockpile would take place very rapidly indeed. The consequent discouragement of mine exploration and development and of smelter construction and expansion would become inevitable and could be rectified only very slowly, if at all.

As America's requirements for tin expand, the sources of needed supply will not be available to us if production has been discouraged. Exploration, mine development and smelting facilities take years to produce results.

If production is discouraged now by the release of tin from stockpile, the American consumer will within a few years, and for many years thereafter pay for this mistake by virtue of higher prices for then truly scarce tin and by reason of higher utilization of energy required to produce substitute metals.

Thank you.

Senator HART. Thank you, Mr. Carey.

In your statement, is there any amount of tin that could be disposed of by GSA that would not have an adverse effect on the world market?

Mr. CAREY. Of course, the more tin that is to be released, the more adverse the effect. But the psychological impact on the market of the release of any amount of tin would indicate to the world markets that tin is to be released in the future, thereby creating an automatic depressing effect on the market.

I think you will find it is going to be a rather dramatic impact, at least in our judgment.

Senator HART. Therefore, the answer to the question is that no amount is satisfactory because it once again signals the market that more may be released after that?

Mr. CAREY. Precisely.

Senator HART. Which gets back to the question that I was addressing to Mr. Bueno. Isn't the very existence of the stockpile, in the absence of some kind of long-term legislative commitment against disposal which I do not think is feasible, going to have the same effect just because any administration or any Congress can decide to dispose of parts of that stockpile?

Mr. CAREY. That is no doubt true. Unless there is an assurance that that tin is to be held by the Government, by the U.S. Government, and now is a very timely point I believe, if Congress does not act at this time to release the tin—I believe so much attention has been given in the past year or so to this issue that if the decision is reached not to

release it, I think you will find that the market has generally relaxed and we will return to a normalization of supply and demand.

And we will then face a period of a slight excess of supply of tin which in our opinion will lead to a somewhat reduced price, nothing dramatic.

Senator HART. What guarantee do the producers or investors have that even though the Congress decided this year not to approve the release that it might not change its mind next year?

Mr. CAREY. I think people in the metal mining business and the consumers are accustomed not to having absolute guarantees from exploration forward, but it would be a degree of assurance that is lacking at the moment.

Senator HART. Thank you very much. That was a very helpful statement.

Our next witness is Ms. Heather Foote representing the Washington Office on Latin America. Ms. Foote, welcome. I note your statement is quite long. Of course, it will appear in the record verbatim. I would encourage you this morning, due to the shortage of time, to summarize it if you can.

STATEMENT OF HEATHER FOOTE, WASHINGTON OFFICE ON LATIN AMERICA

Ms. FOOTE. My name is Heather Foote. Mr. Chairman, I appreciate the opportunity of appearing before this subcommittee and to present our views as to the potential impact of the proposed impact of the tin sales at this point in the history of Bolivia.

The Washington Office on Latin America is a nongovernmental human rights organization created in 1974 by a broad coalition of religious groups and academics to monitor U.S. foreign policy toward Latin America. We work in close cooperation with local human rights groups in the region, as well as with those organizations in the United States which share our concern for the observance of human rights and a return to democratic rule in Latin America.

Since the United States' new media do not give ongoing coverage to Bolivia, it is indeed difficult to keep abreast of the economic and political developments in this Andean country of 5.8 million. Many may have noted, however, that a week ago Sunday the Bolivians went to the polls to elect a President, Vice President, and members of both the Senate and chamber of deputies.

The count on July 3, with one-third of the ballots having been processed, showed candidate Herman Siles Zuazo in the lead, with 36 percent, followed by Victor Paz Estenssoro at approximately 26 percent, and Hugo Banzer at 18 percent.

It is projected that the final count could bring Paz Estenssoro to 29 percent, but that, as was earlier predicted, none of the three leading candidates would win the required 51 percent for direct election.

Under Bolivian law, the decision will therefore go to the bicameral congress, whose 144 members were also elected July 1. The national electoral court will not give the official popular vote count until mid-July and the Congress will have to reach a decision on a new President within 4 days after its installation in the first week of August.

If this account of the Bolivian Presidential elections hardly seems

significant in comparison with other Latin American events, it must be remembered, and it must be emphasized that Bolivia, in moving slowly through the process of permitting campaigning, establishing electoral rolls, printing and distributing ballots, and now counting votes, has set itself apart, not only from its own past, but also from the behavior of most other Latin American nations which are under military rule and at times attempt to disorient their critics by staging sham elections.

Under military rule since former President and current Presidential candidate Gen. Hugo Banzer took over by force in 1971, Bolivia in the past 18 months has followed a slow and not always even road in its return to democratic rule.

A new publication by the London-based Catholic Institute for International Relations gives a summary of this redemocratization period which has advanced still another step with the July 1979, elections. In a surprise move in September 1977, then President Banzer announced that the country's first elections in over 10 years, originally scheduled for 1980, would be brought forward to July 1978. This triggered a January 1978, hunger strike by over 1,200 people to reinforce demands for amnesty for all political prisoners and exiles.

General Banzer was forced to capitulate to these demands, demands based on the belief that true elections should, in fact, be open to participation by all Bolivians, including those jailed or exiled by the military government.

This strike, a first major indication of the strength of opposition to Banzer's dictatorship, became the catalyst for the revival of the Bolivian trade union movement; and, with mounting opposition, General Banzer was forced to lift his 1974 ban on trade unions and political parties.

While the Presidential elections held in July 1978, were fraudulent—as chronicled in a book by the Permanent Assembly for Human Rights in Bolivia, an ecumenical human rights group in La Paz, the Bolivians kept in mind the long-range objective of a return to civilian rule, despite the setbacks they might encounter on the road. Setbacks have been, and will be, many, but the fact that the 1979 elections were held in a competitive and apparently nonfraudulent manner represents a giant step for Bolivia and serves as a hopeful sign to other Latin American countries active in their own redemocratization processes.

How, you may ask, is all of this really related to the tin legislation now before the U.S. Congress? Although it is often difficult to fix cause and effect, many agree that the U.S. human rights policy gave a positive impetus to the Bolivians' call for a return to democratic rule and, in particular, influenced former President Banzer's decision in setting an election date.

A church delegation, including a member of the WOLA staff, traveled to Bolivia at the time of the January 1978 hunger strike. Our office also helped to organize a delegation of lawyers which traveled to Bolivia to observe the July 1978 elections, an action which, it is worth mentioning, was deemed unnecessary for the 1979 elections due to the success in overcoming many of the problems inherent in last year's elections.

The permanent assembly has also published a book, in Spanish, on the 1978 electoral fraud. The activities were carried out in the belief

that human rights has a place within U.S. foreign policy, a belief of the Carter administration and before it the Congress which was communicated, and acted upon, by U.S. Ambassador to Bolivia, Paul Boeker. The United States therefore has had—and can continue to have—both a positive image and a positive impact in Bolivia in the area of human rights.

But as important to Bolivians as their recently recovered rights to freedom of assembly, freedom of speech, freedom of the press, freedom to leave and enter the national territory and freedom to elect their leaders, are rights to a decent standard of living. There is no doubt that the progress in social and political rights over the past 18 months has not been matched by far similar progress in the economic sphere and it is against the scenario of severe economic crisis and a generally positive image of the U.S. human rights policy that one must view the proposed sale of U.S. stockpile tin.

Bolivia is a poor country. After Haiti, it is the poorest country in the Western Hemisphere. According to World Bank figures the per capita income is \$360, but the average annual income in the rural areas is a meager \$100. Basic statistics for 1970 are sobering: Infant mortality is 154 per 1,000 live births; only 35 percent of the urban population has access to piped water; only 8 percent of the rural population has access to electricity; the adult literacy rate is 40 percent. It is estimated that as many as half of the rural workers are underemployed or unemployed.

In 1545, the Spaniards discovered in Bolivia what was to be the richest silver mine in the Spanish empire, the Cerro Rico in Potosi. As indicated by the Catholic Institute for International Relations, this decided Bolivia's future for centuries, relegating it to the role of a mineral producing country and making its economy totally dependent on the vagaries of international demand and world market prices.

The fragility of an economy dependent on a single export was apparent at the end of the last century when the bimetal standard was abandoned in favor of the gold standard in the international market and the world silver market collapsed.

Tin, considered by the United States to be one of the seven strategic minerals, replaced silver as Bolivia's main export product. Today Bolivia, the largest tin producer in the world, is the main contributor of tin ore in the Western Hemisphere.

According to an indepth report on the mining industry by David Fox—Bank of London and South America Review, November 1978—* * * in 1977 * * * minerals accounted for 10 percent of the gross domestic product, 25 percent of the revenue of the Government, and 75 percent of Bolivia's earnings from exports.

It is estimated that tin alone represents close to 60 percent of Bolivia's export revenue. Whether under military rule or soon under civilian rule, Bolivia retains its character as a monoproducer country whose economic well-being is subject to the world tin market.

Bolivia's very heavy dependence on tin is further complicated by its harsh mining conditions, conditions which make the country a high-cost producer in comparison with others. Bolivian tin is found in areas above 13,000 feet. Since machinery must be adapted to the lower oxygen content of the air and the ore is frequently in areas of difficult access, the work does not lend itself to mechanization.

Given these difficulties and the long wait in obtaining returns on capital in this industry, investment in mining is often less advantageous than in other sectors. According to David Fox, "the expectation of a degree of long-term economic and political stability is clearly a factor in encouraging private and overseas investment."

While attempts have been made to broaden the economic base through commercial agriculture and the production of natural gas, it is clear that mining will continue to make a fundamental contribution to the Bolivian economy. This contribution is made by the 300,000 Bolivians involved directly in the extractions process, whose standard of living and work conditions in the underground mines have not changed significantly over the years.

In addition to Bolivia's poverty, its dependence on a single high-cost export commodity, and the slight possibility of significantly diversifying the economy in the near future, one must look at the present indebtedness to understand the fragility of the situation in which Bolivia is returning to democracy.

Bolivia's current balance of payment problem is due in large part to the squandering of easily won petrodollar loan moneys under the administration of former President Hugo Banzer and to the refusal of the past and present military governments to adopt the necessary fiscal measures.

The failure to achieve anticipated petroleum production in the fall of 1978 is another contributing factor.

According to a report based on a World Bank mission to Bolivia in February 1978:

Over the past 2 years the service payments on Bolivia's external debt have risen markedly. This increase has reflected not only the expiration of grace period on a number of loan projects but also the deterioration in the maturity structure of the debt arising from increased use of short- and medium-term general purpose commercial credits which were channeled through the Central Bank to various entities of the public sector.

For 1977, Bolivian exports of merchandise, which includes tin, amounted to \$648.5 million U.S., while imports amounted to \$730.9 million U.S. The World Bank mission projects a period of lower economic growth rates and greater focus on financial stability for Bolivia.

Given Bolivia's financial squeeze, the International Monetary Fund has entered into the scene, although it has refused to deal with the present interim military government, preferring instead to negotiate a debt-relief program with the newly elected president. The latter will receive his first of many tests in his ability to spread the burden of an austerity program among the different economic sectors.

The issue of the sale of U.S. stockpile tin is intimately related to all the above aspects of Bolivian reality. While in an interview Antonio Aranibar, candidate for deputy in La Paz, said that Banzer's call for elections was principally, although not exclusively, a response to the Carter administration, a person walking through the streets of Bolivia is much more likely to be able to quote the current price of tin per pound rather than the latest developments in the U.S. human rights policy. In other words, although the human rights concerns as expressed by U.S. officials do seem to have had a positive impact in Bolivia, the paramount issue is the tin sale, coming just now when

Bolivia has regained civilian rule and when the next year will be a critical one, both economically and politically.

Past sales of tin by the General Services Administration in 1964-65 and 1973-74 resulted in reductions in world tin prices by approximately 17 percent and 14 percent, respectively. Bolivians have a very practical as well as academic understanding of how a mere 10 cents per pound drop in the price of tin can produce a \$7 million reduction in revenues to their country.

They are aware that with 30 percent of the present export earnings now being allocated to service of its \$2 billion foreign debt, a drop in the price of tin would mean a yet higher percentage going to this servicing and a subsequent reduction in domestic expenditures. They are aware that the U.S. economic assistance program, now AID's largest in Latin America, projects a \$71 million budget for fiscal year 1980, bilateral assistance which could indeed be offset by the economic impact of a drop in the tin price.

The Bolivians remember that the strategic reserve tin was acquired by the United States at low prices as a contribution from "an ally in defense of democracy" during World War II and the Korean war. Bolivians remember as well how President Eisenhower, in October 1958, accused the Soviet Union of dumping tin on the world market and thereby creating economic crises in Bolivia and other underdeveloped nations—*New York Times*, November 1, 1958, page 31.

The Bolivians are too well aware that a lowered tin price reduces aggregate demand and can lead to recession, to reduced tin production, to the closing of mines, and to dissatisfaction among miners. The response of previous Bolivian governments has been repression. What would be, what can be, the response of a civilian government which finds itself suddenly confronted by a dramatic drop in tin prices?

Even the U.S. diplomatic sources concede that the release of tin in the postelection period could have a definite upsetting effect on Bolivia's transition to democratic rule.

Bolivians are aware that human rights has found a place, if many times a back seat, in U.S. foreign policy. But Bolivians now seriously wonder whether U.S. policymakers, in supporting this commodity bill, are aware of the significance of the recent elections and have studied carefully the wider ramifications of this proposed sale, now when Bolivia is at such a critical juncture.

Is the release of tin such a domestic imperative that it overweighs the particular and critical problems which Bolivia now faces?

Let us inventory the problems left the newly elected president by either Bolivia's geological configuration or the actions of past military governments.

First, there is Bolivia's dependence on export of a sole commodity. In a country of such great potential for diversification, this development is due in large part to the profit expectations of certain economic sectors, whether foreign or local, which gained government support in the past.

Second, we have the high cost nature of Bolivia's tin extraction.

Third, there are the awesome basic statistics and the understandable pressures on a new government to make rapid progress in such areas.

Fourth, the military governments leave their heritage of indebtedness, making International Monetary Fund measures an ever-increasing possibility.

Additionally, there is clear evidence of a fierce intraregional rivalry as well as an itchiness on the part of sectors of the military which, in refusing to impose unpopular fiscal measures, have hoped to remain pure so as to intervene in the future, if necessary.

The age-old Bolivian specter of the coup is therefore present; and to lengthen, if not end, the list of problems facing a new government, there is, yes, the prospect of untimely tin sales by the United States.

In 1972, following the coup organized by then Colonel Banzer, an estimated 1,000 political prisoners suffered the most cruel repression in prisons throughout Bolivia. Torture and assassination were common practice. The Amnesty International report for 1978 states that on January 30, 1978, the Bolivian Government, yielding to demands of hunger strikers, ordered the extension of amnesty to all political exiles and released the remaining political prisoners.

In 1973, the conditions of the political prisoners and the curtailment of human rights in general were so bad that the Catholic Church's moderate to conservative hierarchy approved the formation of a Justice and Peace Commission which was to deal exclusively with problems related to the violation of human rights.

In mid-1979 the ecumenical Permanent Assembly for Human Rights in Bolivia reported no need for international observers at the July elections.

In 1974, following increases in the prices of basic necessities, a peasant protest demonstration in the Cochabamba Valley was violently repressed, leaving 100 peasants dead and several hundred arrested.

In the spring of 1979, peasants joined other Bolivians in registering to vote and showed a break from the past in not being herded en masse to vote for the favored candidate.

If these comparisons are striking and show the history of progress achieved by Bolivia in the human rights area, one must also recall Bolivia's history of coups and repression.

Bolivia's present situation, one of reentry into the democratic play of forces, was not easily won and is still fragile. Any action with the potential for altering this delicate situation must be given great consideration. Bolivia, whose standard of living is the lowest in South America, has an economy highly dependent on the mining and sale of tin. At such an important point in the Bolivian struggle for a rejuvenated political and economic life, the proposed sale of U.S. tin, coming in the critical postelection months, would only serve to hinder Bolivia's redemocratization efforts.

A reconsideration by the administration and the Congress of the effect of the tin sale on the Bolivian economy would indicate a continued commitment to the very human rights policy which earlier contributed to a democratic opening in Bolivia.

Thank you.

Senator HART. Thank you very much, Ms. Foote, for your statement. We appreciate your appearance here this morning.

Ms. FOOTE. Mr. Chairman, might I request that in addition to my statement that an article appearing in our recent update on Bolivia, as well as the Washington Post editorial on July 6 which relates specifically to tin sales, be added to the record.

Senator HART. Yes; without objection they will be added as appendages to your statement.

Ms. FOOTE. Thank you very much.
[The information follows:]

[Update, May-June 1979]

LATIN AMERICA

HUMAN RIGHTS, LATIN AMERICA AND LEGISLATION : AN UPDATE

The election last November sent shivers of alarm throughout the human rights community. The composition of the 96th Congress appeared a little forbidding without the faithful stalwarts like Senators Abourezk and Clark and Congressman Fraser. A preliminary sampling of the Congress rendered a discouraging prognosis. Even the future of the House International Organizations and Human Rights Subcommittee (locus of so many initiatives in the past) seemed very much in doubt. The best case scenario provided for a maintenance of the status quo, with existing human rights legislation surviving intact. During the latter half of the 95th Congress the entire principle of linking human rights and foreign aid was called into question, so it looked like a year of retrenchment.

Security assistance and military aid have provided vulnerable targets for human rights advocates. Most grant and sales credit programs in Latin America have been eliminated or severely curtailed during the past few years. The House Inter American Subcommittee, in reviewing the overall security assistance programs, held a number of hearings. The Defense Department was represented by Admiral Gordon J. Schuller, who sounded the first alarm. "We are prohibited by statute," he said, "from transacting arms sales or training arrangements with Argentina and Chile. Through self-imposed reactions to our policies, a number of other countries are restricted from our FMS (Foreign Military Sales) and IMET (International Military Education and Training Program) programs. Consequently, our security ties with some of the most influential countries in the region have been seriously attenuated. There has been a gradual deterioration of our military relationships at a time when the region is predominantly governed by military regimes."

Admiral Schuller went on to point out reciprocal restraint had been shown by other arms suppliers and that given the IMET restrictions a whole new generation of Latin American military leaders were not being exposed to U.S. thought and culture.

At the hearing, a member of DOD (Department of Defense) approached the staff director of the subcommittee and asked whether or not Chairman Gus Yatron (D-PA) would support a modification of Section 502(B). The proposed amendment would allow the provision of free training in what was called "professional development courses" notwithstanding existing laws which bar any military training specifically to Argentina and Chile and generally to governments which are serious human rights violators.

It is widely viewed that the Defense Department working with some elements in the State Department (fundamentally the Latin American Bureau) and some committee members had decided that the time was appropriate to challenge these laws since their principal exponent on the Committee, Rep. Don Fraser (D-NM), had been defeated in a Senate bid the year before. For years, liberals who dominated the committee looked to Fraser for leadership on these issues and DOD probably reasoned that in his absence there would be a temporary vacuum. On the first day of the subcommittee mark-up, it was discovered that there was no amendment on "professional development courses." Instead, Chairman Yatron had prepared an amendment which would allow new kinds of military training, arms control and peacekeeping courses, to be provided to human rights violators notwithstanding any other provision of law. In addition, Rep. Lagomarsino (R-CA) had amendments to Section 406 (prohibition on arms transfers of any kind to Chile) and Section 620(B) (similar prohibition on Argentina) that would tuck on a presidential waiver allowing arms sales to these countries if the President determined that it was in the national interest. The subcommittee adjourned before taking up these amendments.

The next day, seven of the nine members attended the subcommittee mark-up. Rep. Lagomarsino quickly decided that he did not have the votes. The swing vote was moderate Republican Benjamin Gilman (R-NY) whose visit to Argentina in 1976 had convinced him that strong human rights measures were necessary.

On the Yatron amendment the subcommittee was treated to an unusual spectacle. The two representatives from the State Department, one from the human rights office and one from the Latin American Bureau, disagreed. The former argued that the definition of what constitutes arms control and peacekeeping training was not well defined and such a loophole might indicate a slackening of concern for human rights in the hemisphere. The latter indicated that there was strong support from the Assistant Secretary Virhon Vaky whose views are widely respected on Capitol Hill. These legislative efforts are symptomatic of the difficulties of preserving the human rights legislation. Asides to some of the junior Democrats on the House Foreign Affairs Committee interpreted these amendments as the beginning of a multi-year effort to roll back completely the prohibitions.

Then a curious and encouraging thing happened. Before the full committee mark-up on the Security Assistance Bill, one of the most senior Democrats went to Rep. Yatron to tell him that his amendment would be overwhelmingly defeated and that he should withdraw it. In a brief colloquy with Rep. Don Bonker (D-WA), who had replaced Don Fraser as head of the Subcommittee on International Organizations and Human Rights, Rep. Yatron agreed to withdraw his amendment pending further hearings and investigations. The Department of Defense had lost a round.

Moreover, Rep. Gerry Studds (D-MA), having studied the entire \$800,000 IMET program, introduced two amendments. The first required the approval of IMET curriculum materials dealing with arms control and disarmament by the Director of the Arms Control and Disarmament Agency (ACDA). Second, he petitioned the committee to eliminate the \$250,000 IMET program for Guatemala. Both passed with little opposition.

The Foreign Affairs Committee took action on two other Latin American countries as well. Panama had its entire \$5.5 million Foreign Military Sales (FMS) program and its \$500,000 IMET program eliminated. Here the administration was caught napping, since these programs were considered important components of the overall Canal Treaty implementation settlement.

A final Committee action, introduced by an alarmed Rep. Ben Rosenthal (D-NY), authorized a \$14 million increase in narcotics control funds for Colombia. (Rosenthal's New York district holds a high concentration of Colombians, and drug related violence has taken a heavy toll.) The funds can be used for helicopters, patrol vessels, transport vehicles, etc. and the magnitude of the program cast a forbidding shadow over Colombia's political landscape. The increasing militarization of the country can only be given a shot in the arm by such funding.

All things considered, the results did not live up to the doomsday predictions made earlier, and in fact flickering through the debates were real signs of hope. A majority of the members still have a healthy skepticism of the Pentagon's Latin American ambitions, and the trends toward greater and disengagement from the area seem not only to have been maintained, but in some cases actually strengthened.

Ordinarily the Senate is a little more predictable than the House. As the Senate Foreign Relations Committee (SFRC) began to review the Development Assistance Bill, some reductions were anticipated. In the wake of Proposition Thirteen and with upcoming re-election struggles for many members of the Senate, cuts were inevitable. By singling out ten countries for violations, the SFRC caught everyone by surprise. On the grounds of human rights violations and general perception that the internal situations made difficult implementation of even programs designed to benefit the needy, the SFRC recommended that Haiti, Nicaragua, El Salvador, Guatemala, Panama, Paraguay, Ethiopia, Afghanistan, and the Central African Empire not receive bilateral assistance in FY 1980. The \$12.8 million programmed for Panama was suspended on the assumption that, as Senator Church said, "larger revenues that will accrue to Panama as a result of the Panama Canal treaties make it (an aid program) questionable." The recommendations amount to a refusal to authorize funds for the specific programs requested. They are not binding on the White House, which could choose, after appropriations for authorized programs are made, to transfer money back into them by taking it from another country.

Defense Department lobbying was apparent, in another action, as several efforts were made to modify the arms prohibitions to Argentina and Chile. Senator Hayakawa first suggested that arms could be sold if the President deter-

mined it was in the national interest. Senator Zorinsky added that only non-lethal material be eligible and Javits modified it to read that the Congress would have to be notified and each house would have 30 days to veto. Senator Sarbanes, in opposing these amendments, argued that neither country had done anything to warrant a relaxation of present prohibitions. Further he observed that approving the amendments would signal to the offending governments that if they simply dug in and resisted long enough, the U.S. would give up on its human rights policies. By a close vote in the SFRC, all were defeated.

Finally, the SFRC took a more cautious approach toward increasing aid for drug interdiction in Colombia. Senator Church's opinion that more time was needed to study the long range impact and effectiveness of such a program prevailed.

On the floor of the Senate, Senator Helms (R-NC) reintroduced an amendment to repeal the prohibitions on arms sales to Chile and Argentina. Senator Javits (D-NY) suggested a modification which would essentially give the President discretionary authority to restore aid to countries where there have been observable improvements in human rights conditions. Senator Javits added that he would support Helms' interest in holding hearings to assess new evidence of improvements. Finally, Senator McGovern (D-SD) introduced an amendment instructing the President to take into account human rights improvements in security assistance decisions; however, the President is not given authority to overrule sanctions legislated by Congress.

As of this writing, the House-Senate conferees have yet to meet. The final reckoning will be delivered by mid-June. Whatever the outcome, it will represent a more encouraging turn of events than the earlier predictions which saw congressional action on human rights moving into a retrenchment period or simply limiting damage on existing legislation.

[The Washington Post, July 6, 1979]

ADD ONE FOR DEMOCRACY

There are not so many democracies anywhere these days that an entry, or re-entry, to the list should go unchecked. That's the reason for a salute to Bolivia, which the other day conducted elections both mercifully unrigged and likely to be honored by the generals who have run the country the last 15 years. The generals' attitude is not to be explained by a dramatic midnight conversion to the virtues of constitutional rule. Rather, they seem eager to spare themselves the burden of putting Bolivians through the international economic wringer, as any new government will surely have to do. But forget about that for now. Bolivia has held free elections. None of the three presidential candidates, all ex-presidents, won the requisite absolute majority, so the newly elected congress will pick a winner soon.

That's where the problem lies. The new president will almost certainly be either Hernan Siles Zuazo or Victor Paz Estenssoro. They were both among the founders of the MNR, the Bolivian party of economic and political modernization that came to power originally in 1952, and if the party had not since split, either one of them would have been in a position to receive a strong popular mandate and to run a strong government. But the party split, and so neither one is in that position. Moreover, because of the military's 15-year hold on politics, a whole generation has come of age unschooled in the habits of compromise and restraint essential for the operation of any democratic system. The economy is weak, unbalanced and debt-ridden, and the international bankers demand austerity measures that will be at best painful and at worst destabilizing.

Bolivia's own leadership is its first line of defense. The prime requirement is cooperation between the two MNR factions. Yet others have a role, particularly the international financial community. The United States, which has been urging the return of democracy to Bolivia, can hardly relax now. One helpful thing the administration could do would be to reconsider its plans for releasing tin from the American stockpile. Such sales lower the price of a commodity that provides the bulk of Bolivia's foreign exchange. Democracy in Bolivia deserves a break.

Senator HART. The next witness is Mr. Scott Dial, representing the Clayton Brokerage Co.

**STATEMENT OF SCOTT D. DIAL, CHAIRMAN, SILVER COMMITTEE,
INTERNATIONAL PRECIOUS METALS INSTITUTE; SILVER SPECIALIST,
CLAYTON BROKERAGE CO.**

Mr. DIAL. Mr. Chairman, I do appreciate being permitted to address the committee today. My focus will be on silver, specifically bill S. 1397.

By way of brief résumé, silver has also been the focus of my family's energies for three generations. I am chairman of the Silver Committee of the International Precious Metals Institute and I am silver specialist with Clayton Brokerage Co.

The strategic stockpile was established to insure that our economy would have available the necessary raw materials to support military and basic civilian requirements during periods of war, national emergency, and when required for the common defense. As such, annually, for 15 years, legislation introduced calling for the sale of silver has been seen as being wholly inconsistent with the very purpose of the stockpile.

Sale of silver has had, over the years, numerous opponents. In fact, Mr. Chairman, during last year's hearing on similar legislation, you may recall that Mr. Harry O'Neill of Opinion Research Corp. testified that 77 percent of the American people opposed the sale of any stockpiled silver.

Statistics presented annually in opposition to silver sales have long documented that silver is an absolutely critical material for both the economy and the national defense of our country. Furthermore, no effective substitute has ever been found and worldwide the supply of silver is dangerously limited. I will not here go into the specific numbers associated with the above facts as they have been an essentially undisputed part of the record for years.

I wish to bring before the committee today new evidence. Early this year the U.S. Bureau of Mines released a study entitled "Mineral Trends and Forecasts." This quite detailed document projects and compares current assumed supplies of various minerals with projected demand for those minerals to the year 2000.

From the supply standpoint, the study lists both the reserves and resources of each mineral. The widely used working definition of these two terms is that the reserves of a mineral are all that are probably available, while the resources of a mineral are all that are possibly available. In short, the total possible supply of any mineral is taken as being far greater than just the probable supply.

In the case of silver, the study lists in table 7-A that the total world cumulative demand will be twice as great as the probable supply by the year 2000. On the other hand, table 7-B lists that, when considering all the possible supplies of silver, twice the amount demanded will be available. Thus only when we move from the realm of the probable to that of the possible will the world have sufficient supplies of silver. Of course, such logic applies to most problems.

Admittedly, though, anything is possible. Unfortunately, the mere possible existence of silver supplies means nothing; it must be produced. As is well known, approximately 75 percent of all silver produced comes as a by-product of copper, lead, and zinc production;

therefore, production of silver is primarily dependent upon the production, and thus the price, of copper, lead, and zinc.

As I previously stated, the Bureau of Mines indicates that by the year 2000 possible silver supplies will twice exceed demand; yet for the three base metals, possible supplies will exceed demand by 7.7 times for copper, 2.4 times for lead, and 8.3 times for zinc. These qualitative facts have a chilling quantitative side.

Currently, it takes approximately 1,500 tons of combined copper, lead, and zinc production to yield 1 ton of silver. This ratio has held quite constant throughout this decade. The Bureau of Mines report indicates probable total supplies of the base metals as being 305 million tons, while probable supplies of silver are given as 209 tons. Simple division thus indicates that by the year 2000 it will take 3,850,000 tons of base metal production to produce the same 1 ton of silver. And if we use figures for possible supplies of each metal, the figures become 5,700,000 to 1.

Put another way, the silver component of the production mix will decline by a factor of 2,580 to 3,800 times. Given the relative overabundance of base metals compared to silver, this indicates that it would be the height of irrationality to produce millions of unneeded tons of copper, lead, and zinc for the resultant ton of silver. We are running out of both silver and the incentive to produce it.

The above facts bring up a frightening specter: Given the critical need for and declining supply of silver, the incentive for someone to corner or squeeze this market seems too tempting. In fact, Mr. Henry Jarecki, chairman of Mocatta Metals Corp., one of the world's largest precious metals dealers, in a speech to the Silver User's Association in mid-January, said:

Supplies are so small and the annual shortfall so large * * * that a substantial portion could be held in very few hands. There is then a danger of a squeeze, by which is meant so great a concentration of ownership in a few hands that the owners can dictate the price * * *

And Mr. Jarecki went further to indicate that the total net cost to do so would be only about \$100 million.

Mr. Chairman, with billions of dollars pouring out of this country to purchase just oil, in which we have a lower percentage import dependency than silver, there is thus opportunity to go along with motive for the commission of a silver squeeze.

As mind-boggling as are the above facts, even more mind-boggling is the presence of any bill to sell silver.

The remainder of my remarks will be directed at the culprits and their argument behind the "sell silver" movement.

Currently, there is really only one argument made in support of silver sales. Without denying our costly dependence upon foreign silver, it is said that those foreign sources of silver are friendly ones, and we need not fear disruption of supply. The argument is both chauvinistic and spurious. In the first case, it is absurd to believe that the mineral wealth of any foreign, sovereign nation is at the beck and call of the United States. Particularly, as was reported in Metals Week of June 18:

The export and monetary policies of Peru and Mexico will prevent mining companies from putting all their production on the market. Like Mexico, Peru's

Central Bank has been buying large quantities of the country's output to mint as coins and to increase its silver reserves.

Silver is thus being remonetized and therefore is being increasingly withheld from export. In any case, history is replete with the failure of the argument, most notably with our prior almost total dependence upon Cuba for nickel.

But it is the spurious aspect of the argument that is most amazing. To harken back to the very purpose of the stockpile, it is obvious that stockpiled materials must exist in processed form in this country for immediate use in the event of crisis, not in the ground in the raw state in a foreign sovereign nation. The argument citing assured foreign availability of silver is a gross dismissal of the very essence of the Strategic and Critical Materials Stockpiling Act and would call for an abrogation of our Government's responsibility as cited in the act.

Now for the culprits. There are two. As has been well documented at numerous times over the years, two groups have striven every year to sell our silver: The Silver Users Association [SUA] and the Government itself.

The motives of the two are regularly reported as being—in the case of the SUA the chance to buy the last cheap silver; while in the case of the Government, the desire to augment the budget.

In short, these two old trading partners would like to get together again for, as you may recall, America's silver users were the primary purchasers of the billions of ounces of Treasury silver sold in years past. While these motives are understandable, the result has become insidious as the following chain of events indicates:

The M-X missile has been roundly presented as being absolutely vital to America's defense in the coming years. Its production will apparently commence shortly. In 1976, Mr. Vincent Tolino of the Defense Logistic Agency, Department of Defense, was widely quoted when he announced that the Air Force, charged with overseeing the M-X program, had requested 160 million ounces of silver.

This, of course, would have been for use in the batteries for the launch system. Specifically, a silver/zinc battery was originally to have been used.

Last year, suddenly the designated battery became the lithium hydroxide battery. You may recall, Mr. Chairman, that in my testimony last year I announced that the lithium hydroxide battery had been banned by the Canadian Transport Authority as it had been found to have an alarming tendency to blow up. Since then, the lithium hydroxide battery has been dropped from consideration in the M-X program.

But now the battery of preference appears to be the lithium thione chloride battery. I am no battery expert, Mr. Chairman, so I called some battery experts last week regarding this new battery. I learned the following: One, the volatile element in the ill-fated lithium hydroxide battery is lithium sulfur dioxide; it is the same volatile element in the lithium thione chloride battery. Two, regarding the effectiveness of the new battery, I received the following representative reply from Dr. Jack Brown of Westinghouse: "* * * conjectural at best."

I then phoned Norton Air Force Base in California which is charged with various technical developments for the M-X program, to see if

perhaps the whole generation of lithium batteries had been scrapped. I was told that the lithium chloride battery was still preferred and that silver-based batteries were not being considered because of "*** stockpile considerations." Stockpile considerations?

It was widely reported last year, Mr. Chairman, that Senator James McClure had written Defense Secretary Harold Brown to request that the Department of Defense consider a silver-based battery for the M-X.

Secretary Brown wrote back and said that the Department of Defense was not considering any silver-based battery. This is most remarkable in view of the fact that silver-based batteries represent a long proven technology and testimony last year documented that such batteries were simply the best available.

How can the Government have, in the space of 3 years, dropped the best available battery system for one that may blow up? The answer to that question lies outside my realm, I am sure. But, Mr. Chairman, various silver battery manufacturers told me just last week that in their opinion the Silver Users Association has convinced the Government, informally, of course, to abandon silver-based batteries.

Given the long relationship between the SUA and the Government and the fact that no battery manufacturers are members of the SUA, I find this whole situation, as I said, insidious.

In any case, someone, somewhere has apparently blackballed silver-based batteries for use in the M-X missile and what we are now left with is "*** conjectural at best."

Mr. Chairman, if the M-X missile is indeed vital to America's and my future defense, I am, frankly, scared to death.

In summation, silver is vital to this Nation. It is a metal without substitute. The world is running out of silver and the incentive to produce it is dwindling. As a result, the incentive and opportunity for someone to corner the available supply now is distressingly tempting; and yet we have here a bill to sell silver. Every year we have a bill to sell silver, a bill opposed by the great majority of Americans, a bill defeated every year. Only the Government and the Silver Users Association push for the sale of silver. Their argument of the assured availability of foreign supply is chauvinistic; it is spurious; and now someone's behind-the-scenes maneuvering has worked to imperil a vital component of our Nation's defense.

This bill, S. 1397, must be vigorously opposed.

I am happy to note, though that Congressman Larry McDonald has just introduced a bill, H.R. 4665, calling for the purchase of substantial quantities of silver for the stockpile. It is my fervent hope that this is the beginning of a rational policy for the Government devoid of past entanglements.

My thanks to you, Mr. Chairman, and I welcome any questions.

Senator HART. Thank you, Mr. Dial.

I don't have any questions, but I appreciate your statement. The culprits seem to have fled. So we will have to await their response to your charges of insidiousness and so forth. But it is an interesting and helpful statement. Thank you.

Our next witness is Mr. Walter L. Frankland, Jr., Silver Users Association. Not all the culprits have fled, just the Government culprits.

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

Mr. FRANKLAND. I wish we had all our members here, to learn of the power that we have in the association. It is a surprise to me, and I think it would be to them, too.

Senator HART. You can provide them with a copy of the testimony.

Mr. FRANKLAND. I will.

Mr. Chairman, we do have a statement that we would like to submit for the record, including some enclosure that contain some additional facts about silver. I will summarize, however, the main points that we would like to make at this time.

I am Walter L. Frankland, Jr., executive vice president of the Silver Users Association. I appear this afternoon to present the statement of the association supporting that portion of S. 1397 which would permit the silver disposal and to answer any questions about the position.

I would like to emphasize, Mr. Chairman, that the recent study of silver by the Comptroller General confirms the excess status of silver and makes the full 135 million ounces in the stockpile a surplus. S. 1397 seeks disposal authority for only 15 million ounces of that surplus.

The GAO report dated April 10, 1979, is in response to a request from the subcommittee, from the chairman, from Senators Hart, Thurmond, and Hatfield. That particular report substantiates the position of the Federal Preparedness Agency that the stockpile goal for silver should remain at zero.

The GAO analysis goes even further in stating, and I would like to quote: "That defense tier requirements could be met by U.S. production alone."

In this regard, Mr. Chairman, the other stocks referred to by Mr. Strauss were as backup material in case some of the assumptions might be wrong; but certainly it would not be the basis for determining the original need or goal for silver.

Silver is a very emotional metal when it comes to stockpiling and, in fact, the emotions seem to beg not to be confused by the facts.

We would suggest, Mr. Chairman, that the entire GAO report be made a part of this record, if that is possible.

We believe that the Congress should realize at this time that, because of high prices for silver, the current value of the surplus stock is more than \$1.2 billion. The interest cost alone for carrying this surplus silver is nearly \$350,000 a day. It would seem that in these times of high inflation and rising Government costs, maintaining materials which are surplus to defense requirements is not in the best interest of the taxpayers.

Unlike many of the stockpile items that are contained in the Government's stockpile, silver comes basically from the Western Hemisphere. In fact, two-thirds of the world production each year comes from the Western Hemisphere. In this regard, the United States, Canada, and Mexico produce about 131 million ounces of the new production, making a total of 181 million ounces for an annual current demand of 160 million ounces in the U.S. It is evident that this raw material would be accessible in an emergency.

Here I would like to compare a crisis that was discussed earlier with a wartime emergency.

I don't believe the two are the same. To regard the availability of silver from neighboring countries in the case of a war emergency, I think, changes the picture when you are comparing crisis with a wartime emergency.

The cited production I just mentioned does not include silver recovered in the United States annually from coins and other forms of usable scrap which in 1978 was estimated at 62 million ounces.

In summary, Mr. Chairman, the rationale for the association's position is as follows: By National Security Council criteria, the full stockpile of 139.5 million ounces of silver has been declared surplus to defense needs. The Strategic and Critical Materials Stockpiling Act provides when this material is declared surplus it is to be returned to the market from which it originally came.

Second, with the high current market price for silver—and yesterday that got up to \$9.08 per ounce—the sale of Government silver would then increase revenue to the Treasury, benefiting all taxpayers, and could reduce the budget deficit.

Third, 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 general supplies.

I might add, Mr. Chairman, this testimony by the association is the closest thing you are going to get by anybody representing a consumer in this country.

Finally, Mr. Chairman, funds available for the sale of surplus silver could be used to purchase high priority items needed for the stockpile.

In closing, Mr. Chairman, we think the references to the M-X missile in the GAO report is important. That particular report explains that, should the M-X missile system become operational, silver used in the whole project would be about 1 million ounces instead of much larger quantities. A larger requirement for the missile system will be misleading information distributed by those interested in higher silver prices.

Again, we would ask, Mr. Chairman, that the full statement be placed in the record, including the enclosure. Thank you.

Senator HART. Thank you, Colonel Frankland. Your statement will appear verbatim with the attachment.

[The prepared statement of Mr. Frankland follows:]

PREPARED STATEMENT OF WALTER A. FRANKLAND, JR., SILVER USERS ASSOCIATION, INC.

Mr. Chairman: We appreciate the opportunity to appear today to express the views of the members of the Silver Users Association in support of that portion of S. 1397 which would authorize the release of 15 million ounces of silver from the national stockpile.

The Silver Users Association is composed of manufacturers which use silver in the production of photographic film, electrical appliances and contacts, silverware, fabricated industrial products, commemorative art, jewelry and medical supplies. It is estimated that members of SUA consume approximately 80% of the silver used in domestic manufacturing. A list of the current membership is attached as enclosure A to this statement. A Fact Sheet explaining in more detail the purpose of the Silver Users Association is at enclosure B.

SUA SUPPORTS SILVER SURPLUS SALES

In testimony before this subcommittee last year, SUA explained its position that the amount of silver determined to be surplus to defense requirements should be returned to the market from which it originally came. For more than six years, silver in varying amounts has been declared surplus by three different administrations including the current one. The Strategic and Critical Materials Stock Piling Act specifically provides that commodities declared surplus are to be made available to the market "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 * * *". Congress has been exceptionally slow in performing its approval role in this procedure.

GAO REPORT CONFIRMS ZERO SILVER GOAL

At the request of the chairman of this subcommittee and Senators Thurmond, Helms and Hatfield, the Comptroller General of the United States was asked to study national defense requirements for a silver stockpile. That report, LCD-79-410, dated April 10, 1979, has been completed. It confirms that the methodology used by the Federal Preparedness Agency is "a reasonable approach" to this form of economic analysis and that "current information indicates that the silver supply exceeds projected wartime requirements." The report substantiates the position of the Federal Preparedness Agency that the stockpile goal for silver should remain at zero. The GAO analysis goes even further in stating that, "** * * defense tier requirements could be met by U.S. production alone.*" (Italics added)

Mr. Chairman, we submit that the report by GAO should help relieve the concerns of those who might question the zero stockpile goal for silver. We would urge, too, that the GAO report be made a part of the record of these hearings.

MAJOR SILVER SOURCES ARE IN WESTERN HEMISPHERE

It should be emphasized, Mr. Chairman, that the United States, Canada and Mexico together produce about 131 million ounces annually. The balance of the Western Hemisphere supplies an additional 50 million ounces of new production, making a total of about 181 million ounces. For an annual current demand of 160 million ounces in the U.S., it is evident that this raw material would be accessible in an emergency. The cited production does not include silver recovered in the U.S. annually from coins and other forms of usable scrap, which in 1978 was estimated at some 62 million ounces.

SUA CALLS FOR SILVER AUCTIONS BY GSA

The Association believes that now is the time for the Congress to act in carrying out its responsibility. We, therefore, urge approval of legislation to release silver to the market as soon as possible. We advocate that the disposals be made in a manner comparable to the sales conducted by the General Services Administration during the period 1967-1970. We suggest that weekly auctions be in amounts between 500,000 ounces and one million ounces.

The Congress should be reminded that at current silver prices, the value of the surplus silver is about \$1.2 billion. The interest costs, alone, for carrying this surplus silver are more than \$300,000 per day. It would seem that in these times of high inflation, and rising government costs, maintaining materials surplus to defense requirements is not in the best interests of the taxpayers.

SUA RATIONALE

Rationale for the SUA position supporting legislation which calls for the release of surplus silver from the stockpile may be summarized as follows:

By National Security Council criteria, 139.5 million ounces of silver have been declared surplus to defense needs.

With the high current market price for silver (about \$8.60 per ounce) 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.

Finally, funds available from the sale of surplus silver could be used to purchase high priority items needed for the stockpile.

GOVERNMENT SALES WOULD IMPROVE BALANCE OF PAYMENTS

Because the U.S. 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 imports would be reduced. At the average price of \$5.40 per ounce for 1978, the cost of silver net imports of 53 million ounces was approximately \$286 million. For every ten-cent increase in the price, the cost for silver imported at the 1978 rate will be about an additional \$5.3 million.

GOVERNMENT SILVER SALES WOULD MEAN NET REVENUE TO THE TREASURY

A current price, the revenue to the government would be about \$8.60 per ounce. With an average price at the latter amount, the full stockpile release of 139.5 million ounces would realize a profit to the government of more than \$1 billion. The sale of 15 million ounces would result in a net gain of \$110 million since the stockpile silver is valued at \$1.29 per ounce.

In closing, Mr. Chairman, perhaps one other reference should be made to the GAO report on silver. Because of misleading information distributed by those interested in higher silver prices, the timely reference to the MX missile program is quoted as follows:

"Substituting lithium thionyl chloride for silver in MX missile system batteries virtually eliminated the systems requirement for approximately 35 million troy ounces of silver. System silver requirements are now estimated to be about 1 million troy ounces maximum. However, it should be noted that requirements of the MX system and the substitution previously mentioned never affected the silver stockpile. Essentially, commodities are stockpiled by the United States to meet projected requirements for the first 3 years of a conventional war. The requirements of the nuclear MX would not be reflected in stockpile goals and objectives."

Mr. Chairman, we request that additional material be received for the record as relevant to the SUA position. I refer to enclosure C, entitled, "Background on Domestic Silver", and its attachments.

Thank you.
Enclosures.

Enclosure A

SILVER USERS ASSOCIATION, INC.

SUA MEMBERS

Photographic materials.—E. I. du Pont de Nemours & Co., Inc., Wilmington, Del.; Eastman Kodak Co., Rochester, N.Y.; Minnesota Mining & Manufacturing Co., St. Paul, Minn.; Polaroid Corp., Cambridge, Mass.; and Powers Chemco, Inc., Glen Cove, N.Y.

Silverware.—Gorham Division of Textron, Inc., Providence, R.I.; International Silver Co., Meriden, Conn.; Samuel Kirk & Son, Inc., Baltimore, Md.; Lunt Silversmiths, Greenfield, Mass.; Oneida Ltd., Oneida, N.Y.; Reed & Barton Silversmiths, Taunton, Mass.; The Stieff Co., Baltimore, Md.; Tiffany & Co., New York, N.Y.; Towle Manufacturing Co., Newburyport, Mass.; and Wallace Silversmiths, Wallingford, Conn.

Commemorative and collector arts.—Medallic Art Co., Danbury, Conn.

Fabricated and industrial products.—Engelhard Industries, Iselin, N.J.; Handy & Harman, New York, N.Y.; J. W. Harris Co., Inc., Blue Ash, Ohio; Midland Processing, Inc., Pomona, N.Y.; and Precision Metallurgical Corp., Millis, Mass.

Associations.—Manufacturing Jewelers & Silversmiths of America, Inc. and National Association of Mirror Manufacturers.

Enclosure B

SILVER USERS ASSOCIATION, INC.

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; 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 development in the field of silver; such as, production, consumption, availability, uses, prices, regulations 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, 37.6 percent; electrical and electronics, 23.6 percent; sterling ware, 12.0 percent; brazing alloys, 6.9 percent; catalysts, 5.5 percent; jewelry, 4.5 percent; electroplated ware, 4.6 percent; commemorative and collectors arts, 1.8 percent; mirrors, 1.3 percent; and, all others, such as bearings, dental and medical supplies and rockets and missiles, 2.2 percent.

The Association estimates that its members account for approximately 80 percent 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 1,500 firms of the Manufacturing Jewelers and Silversmiths of America and their 70-75,000 employees; and, the 22 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, Wallace Silversmiths. Mr. Jay Powers, Treasurer, Powers Chemco, is Vice President and Chairman of the Executive Committee. In addition to these two officers, other members of the latter committee are: Mr. Nelson B. Colton, Engelhard Industries; Mr. Philip G. Deuchler, Handy & Harman; Treasurer, SUA, Inc.; Mr. George R. Frankovich, Manufacturing Jewelers & Silversmiths of America, Inc.; Mr. Frank E. Grzelecki, Gorham Division of Textron, Inc.; Mr. Denham C. Lunt, Jr., Lunt Silversmiths; Mr. R. C. Mack, Eastman Kodak Co.; Mr. Donald Schwartz, Medallie Art Co.; Mr. Sinclair Weeks, Jr., Reed & Barton Silversmiths; Mr. John L. Whitehead, E. I. du Pont de Nemours & Co., Inc.; Mr. Robert Wiele, Minnesota Mining & Manufacturing Co., and Mr. Walter L. Frankland, Jr., Executive Vice President-Secretary, SUA, Inc.

Enclosure C

SILVER USERS ASSOCIATION

BACKGROUND ON DOMESTIC SILVER

General.—During its two hundred-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, 39 million ounces in the U.S. Mint and 6 million ounces held by the Defense Department.

Domestic Supplies.—New production in the U.S. for 1978 amounted to 38.6 million ounces. (Source: Bureau of Mines); Secondary recovery from scrap including melted coins is estimated at 62 million ounces for 1978. (Source: The Silver Institute); Net imports accounted for 53 million ounces during 1978. All but 5 million ounces of this figure are attributed to countries of the Western Hemisphere. (Source: Handy & Harman.)

Domestic Consumption.—Industrial demand in the U.S. for 1978 was estimated by the Bureau of Mines at 160 million ounces, an increase of about six million ounces from 1977. In addition to new production, scrap recovery and imports, other silver used to meet industrial requirements in recent years has come from industry inventories and speculative holdings. A breakdown by usage category is contained in Attachment 1.

Price.—At the time the Treasury ceased selling silver to all comers in May, 1967, the price was \$1.29 per ounce. 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. The average price in 1972 was \$1.68; \$2.57 in 1973; and \$4.71 in 1974.

A new all-time high was established at \$6.70 on February 20, 1974. The strong upward pressure on the price was caused by a world-wide 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, with an average of \$4.42 in 1975 and \$4.35 in 1976. Fluctuations between \$4.30 and \$4.96 during 1977 were wide at times, with 5-10 cent differentials not unusual from one day to the next. The average for that year was \$4.62. The average price for 1978 was \$5.40, with the high of \$6.296 on October 30 and the low of \$4.829 on January 5.

During the first half of 1979, silver prices were very volatile with a low of \$5.961 per ounce and a record high of \$8.768. As of June 30, the average for the year was \$7.587.

Government Stockpile.—Silver was first placed in the strategic stockpile in June, 1968, 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 the United States, Canada and Mexico together produce about 131 million ounces annually. The balance of the Western Hemisphere supplies an additional 50 million ounces of new production making a total of about 181 million ounces. For an annual current demand of 160 million ounces in the U.S., it is evident that this raw material would be accessible in an emergency. The cited production does not include silver recovered in the U.S. annually from coins and other forms of usable scrap which in 1978 was estimated at some 62 million ounces.

The National Security Council has determined that there is no requirement for stockpiling silver. The amount currently in the stockpile—139.5 million ounces—is surplus to defense needs. It should be noted that other stocks in this country could become available for extreme emergencies not contemplated in the plans, such as: 39 million ounces in the Treasury stocks for coinage; 34 million ounces held by industry; 6 million ounces in Defense Department stocks for contracts with government furnished material provisions; 110 million ounces in COMEX and Chicago Board of Trade warehouses; an estimated 250-900 million ounces in 90 percent U.S. silver coins held by citizens; and an undetermined amount of silver in ingots held as investments by citizens and institutions.

Attachments: (1) U.S. Industrial Consumption (1973-78); (2) World Silver Consumption and Supplies (1973-78); (3) Price History (1967-78); and Industry Stocks (1967-78).

ATTACHMENT 1
U.S. INDUSTRIAL CONSUMPTION
[In millions of ounces]

Category	1978	1977	1976	1975	1974	1973
Electroplated ware.....	7.2	6.8	9.5	8.7	13.2	14.5
Sterling ware.....	17.9	16.7	19.8	23.7	22.2	29.4
Jewelry.....	6.8	8.1	11.0	12.7	5.2	5.8
Photographic materials.....	64.3	53.7	55.5	46.1	49.6	52.0
Dental and medical supplies.....	2.0	2.2	1.9	1.5	2.4	3.0
Mirrors.....	1.9	2.1	4.6	3.1	3.9	2.6
Brazing alloys and solders.....	10.3	12.4	11.2	13.6	14.5	17.7
Electrical and electronic products:						
Batteries.....	6.0	5.8	3.5	4.3	4.2	4.2
Contact and conductors.....	30.7	31.3	32.3	27.2	31.3	40.2
Bearings.....	.4	.5	.3	.5	.4	.4
Catalysts.....	8.2	8.9	12.3	8.8	7.3	6.0
Coins, medallions, and commemorative objects.....	2.7	4.3	8.2	7.2	22.3	20.1
Miscellaneous.....	1.0	.9	.3	.3	.5	.5
Total ¹	159.4	153.6	170.6	157.7	177.0	196.4

¹ Total may vary due to rounding off.

Source: Bureau of Mines.

ATTACHMENT 2
WORLD SILVER CONSUMPTION AND SUPPLIES¹

[In millions of ounces]

	1978	1977	1976	1975	1974	1973
Consumption:						
Industrial uses:						
United States	160	161	171	158	177	196
Other countries	228	228	228	208	247	282
Coinage uses:						
United States	1	1	1	3	1	1
Other countries	35	21	29	36	27	28
Total consumption	423	411	429	405	452	507
Supplies:						
New production	265	248	247	238	239	254
U.S. Treasury silver	1	1	1	3	1	1
Other supplies	154	152	201	180	166	190
Total supplies	419	401	449	421	406	445
Liquidation of (additions to) speculative inventories	4	10	20	16	46	62
Available for consumption	423	411	429	405	452	507

¹ Excluding Communist dominated areas.

Source: Data taken from Handy and Harman Silver Reviews.

ATTACHMENT 3
SILVER PRICE HISTORY (H. & H.—N.Y.) 1967-78

[Dollars per ounce]

Year	High	Low	Average
1978	\$6.30	\$4.83	\$5.40
1977	4.96	4.32	4.62
1976	5.10	3.82	4.35
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. Industry Stocks

[Millions of Ounces]

1978	29
1977	33
1976	30
1975	35
1974	60
1973	38
1972	52
1971	56
1970	82
1969	86
1968	77
1967	52

Source: Bureau of Mines.

[The prepared statement of Gulf Chemical and Metallurgical Division of Associated Metals and Minerals Corp. follows:]

PREPARED STATEMENT OF GULF CHEMICAL AND METALLURGICAL DIVISION OF
ASSOCIATED METALS AND MINERALS CORP.

Mr. Chairman and Members of the Subcommittee, Gulf Chemical and Metallurgical Division of Associated Metals and Minerals Corporation is the owner-operator of the only tin smelter in the United States—the Texas City Smelter. We at Gulf Chemical believe it critical for this Subcommittee, in its review of stockpile disposal policies, to be informed of the existence, operations and role of the domestic production of primary tin.

We mention the "existence" of domestic tin production because, all too often, the tin industry is thought of as U.S. consumers and foreign producers only. It is the interests of these highly visible and vocal components of the industry which are discussed in the trade media and popular press—and in statement after statement presented to Congressional committees. Little, if any, recognition is given to the domestic production facet of the tin industry. It is this concern—that the strategic and economic importance of the sole U.S. producer of primary tin may be overlooked—which brings us to this Subcommittee.

Currently, Texas City Smelter is producing more than 6,000 tons of tin per year. This production is on the order of fifteen percent of present United States consumption. Tin concentrates, predominantly from Bolivia, form the base load of Texas City Smelter's production, with recycled residues completing the feed. To reduce this dependence on imported concentrates, and to increase productive capacity, Gulf has embarked on a major capital expansion program. A new \$7 million facility which will permit the use of any tin-bearing material has recently been completed. Our expectation is eventually to decrease reliance on Bolivian concentrates from last year's 80 percent of the feed to 20-30 percent. This change in the use of raw materials obviously strengthens the independence of U.S. production, as well as its quantitative capacity.

We at Gulf Chemical strongly urge this Subcommittee to focus on the strategic and economic importance to the United States of the domestic production of tin. The role of Texas City Smelter as an essential component of the tin industry in the United States cannot be overlooked. Nor must its effectiveness as a bulwark against total dependence on foreign-produced tin be diminished by unthinking disposal of stockpiled tin on the domestic market.

Gulf's only realistic market for its smelted tin is domestic, as transportation costs normally impede Gulfs competing in world markets. Tin released from the Strategic and Critical Materials 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 requirement of the Strategic and Critical Materials Stock Piling Act, 50 U.S.C. §§ 98-98h, that "the plan and date of disposition shall be fixed with due regard to * * * the protection of producers, processors, and consumers against avoidable disruption of their usual markets * * *" 50 U.S.C. § 98b(e). Absent such protection, Gulf's very existence as the sole U.S. producer of primary tin metal could be threatened because of the volume of stockpiled tin available for disposal at any given time. The United States would then find itself totally dependent on foreign sources for smelted tin, notably Thailand, Indonesia, Malaysia, and the People's Republic of China. To insure that the long-range defense and industrial needs of the United States not be left to the vagaries of Southeast Asian political and economic policies, any disposal of stockpiled tin must be geared to the continued ability of the domestic smelting industry to sell its product on a current basis.

The tin disposal bills under consideration by this Subcommittee (S. 27 and S. 1397) do reiterate the traditional legislative language mentioned above. But we feel that the unique and often overlooked position of the domestic tin smelting industry requires a more explicit call for protection. We thus respectfully request that this Subcommittees report specifically point out the necessity for an orderly tin disposal plan which will protect adequately the marketing of domestically-smelted tin.

Attached for the Subcommittee's consideration is a copy of the oral testimony presented last year by Gulf Chemical's president to the House Subcommittee on Seapower and Strategic and Critical Materials during its hearings on stockpile disposal.

E. B. KING, *President.*

Senator HART. We have made an effort to accommodate all requests for testimony. I would indicate the record will remain open until the following Friday, July 13, at noon, for additional material that any party wishes to submit; and, of course, any party who wishes to comment on the testimony of other witnesses may do so in writing to the subcommittee by the Friday noon deadline.

I appreciate the appearance of all witnesses this morning.

I thank all of you. I think you have made an excellent report.

The hearing is adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned, the subcommittee to reconvene subject to the call of the Chair.]



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