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SALE OF SURPLUS COTTON TO DOMESTIC MILLS

JULY 15, 1959.—Ordered to be printed

Mr. AIKEN, from the Committee on Agriculture and Forestry, submitted the following

REPORT

[To accompany S. 314]

The Committee on Agriculture and Forestry, to whom was referred the bill (S. 314) to assist the U.S. cotton textile industry in regaining its equitable share of the world market, having considered the same, report thereon with a recommendation that it do pass without amendment.

This bill would require the Secretary of Agriculture to sell not less than 750,000 bales of surplus cotton to domestic textile mills annually for 5 years, beginning with the current fiscal year. Prices would be such as to enable domestic mills to return to the cotton product export level maintained during the period 1947 to 1952, inclusive. The cotton could be used only for the manufacture of products for export.

In the event the demand by domestic mills exceeded the quantity to be sold in any year, the quantity to be sold would be prorated among applicant mills on the basis of quantities processed during the preceding 3 years.

Sale in the United States of products of cotton sold under the bill would be punishable by fine of up to $5,000 and imprisonment up to 5 years.

The purpose of the bill is to restore their fair share of the world market to domestic mills so that the closing of mills which cannot compete with the foreign product of low-cost labor, and the consequent unemployment of domestic textile workers, can be averted.

An identical bill (except as to effective date) was passed by the Senate on August 26, 1957.

Reports from the Department of Agriculture and the Department of State follow.

Since the Department report was submitted on this bill, conditions have changed so that the Department now estimates that the cost per pound under the provisions of this bill would amount to 11½ cents. Based on the sale of 750,000 bales, the annual cost to the Government would be $43,125,000.

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DEPARTMENT OF AGRICULTURE,
Washington, D.C., March 17, 1959.

Hon. ALLEN J. ELLENDER,
Chairman, Committee on Agriculture and Forestry, U.S. Senate.

DEAR SENATOR ELLENDER: This is in reply to your request of January 16, 1959, for a report on S. 314, a bill to assist the U.S. cotton textile industry in regaining its equitable share of the world market.

The Department is opposed to passage of the bill.

This bill authorizes and directs the Secretary of Agriculture to make available to textile mills during the fiscal year ending June 30, 1960, and each of the 4 succeeding fiscal years not less than 750,000 bales of CCC cotton at such prices as the Secretary determines will allow the U.S. cotton textile industry to regain the level of exports of cotton products maintained during the period 1947–52. A mill would be required to agree that such cotton would be used only for the manufacture of cotton products for export.

Previous bills with substantially identical provisions were introduced by Senator Smith during the 84th and 85th Congresses. The bill introduced during the 84th Congress was S. 4156. The bill introduced in the 85th Congress was S. 314. Assistant Secretary McLain represented the Deptrtment at hearings before the Senate Agriculture Committee on July 16, 1956, and June 24, 1957, and opposed these bills.

From January 1956 to January 19, 1959, the Department has sold for export a total of 16,479,419 bales of CCC stocks of upland cotton on a competitive bid basis. The Department also initiated during 1956 the cotton products export program, which extends the benefits of the export sales programs for raw cotton to cover exports of cotton textiles, yarns, and spinnable waste manufactured in this country from American upland cotton. Under this program, equalization payments are made to exporters of cotton textiles and spinnable cotton waste at rates which reflect the difference between the domestic market price and the CCC export price for cotton. Through January 9, 1959, 187,289 sales had been registered with CCC and equalization payments of $35,239,616.92 had been made by CCC to exporters on the cotton products exported.

Only about 10 percent of the cotton textiles exported are exported by integrated mills; that is, mills which have sales organizations and make export sales of cotton products. The other 90 percent of exports are made by persons or firms other than textile mills. Most cotton products pass through many hands before they are exported. Many items are manufactured from several types of cotton and from material from more than one mill. In fact, in most instances, the mill that processes the raw cotton does not know the final end use or destination of the finished products. Therefore, it would be almost impossible for cotton which has been sold for processing into textiles for export to be followed through the channels of trade until finally exported.

The Department believes that the textile industry should be protected with respect to exports of cotton products against the adverse effects resulting from the sale of U.S. cotton at reduced prices under the export program. However, the cotton products export program already in operation is designed to and we believe affords this protection. The Department does not feel that direct Government sub-

sidization of the domestic textile industry for the express purpose of increasing exports to the level prevailing in the period 1947–52 can be justified. Textile exports from the United States during the 6-year period 1947–52 were the highest in history. Exports during the early part of the period reflected pentup world demand following World War II, and the latter part of the period reflected demand resulting from the powerful upsurge in economic activity immediately after the Korean outbreak. Government subsidization of the domestic textile industry in an attempt to restore and perpetuate these abnormal conditions would clearly be uneconomic and difficult to justify. Moreover, such action would cause serious disruption of our international relations and would inevitably be followed by retaliatory measures in other countries.

We are of the opinion that the Department's cotton products export program, which is an adjunct of the export program for raw cotton, is a sounder and more workable program than the program called for by the provisions of S. 314 and, in view of the difficulties inherent in the administration of this bill, we do not believe such legislation is desirable or necessary.

It is impossible to make a reasonable estimate of the costs which might be incurred by the Department in carrying out the provisions of the bill. Exports of cotton products during the period 1947–52 were at extremely high levels, which would make it very difficult to determine the price level at which cotton would have to be made available to mills in order to attain exports at the levels of the period specified. Assuming, however, a reduction of 10 cents a pound and the sale of 750,000 bales, the annual cost to the Government would be $37,500,000.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

E. T. BENSON, *Secretary.*

DEPARTMENT OF STATE,
Washington, March 9, 1959.

Hon. ALLEN J. ELLENDER,
Chairman, Committee on Agriculture and Forestry, U.S. Senate.

DEAR SENATOR ELLENDER: Reference is made to the request of the Committee on Agriculture and Forestry of January 23, 1959, acknowledged January 26, for the views of the Department regarding S. 314. This bill is virtually identical with S. 4156 of the 84th Congress and with S. 314 of the 85th Congress. The views of the Department on S. 314 are similar to those previously submitted to the committee with regard to these two bills.

S. 314 would direct the Secretary of Agriculture to sell not less than 750,000 bales of raw cotton owned by the Commodity Credit Corporation to textile mills in the United States during each of 5 fiscal years beginning July 1, 1959. These sales would be made at prices which the Secretary would determine would allow the tectile industry to regain the level of cotton textile exports which it had in the period 1947 through 1952. The raw cotton would be allowed to be used only for the manufacture of cotton products for export.

This Department has carefully reviewed this bill. It is certainly in agreement with the desire to increase the cotton textile exports of the United States. However, the method proposed in this legislation to increase such exports may well create new and more difficult problems for the domestic textile industry and for the country as a whole, which would more than outweigh any advantages hoped to be gained by the bill.

There has been in operation since August 1, 1956, a cotton products export program administered by the Department of Agriculture. Under this program the Department of Agriculture makes cash payments to cotton textile exporters based upon the raw cotton content of the products exported. The use of cash payments in implementing the cotton products export program resulted from a determination by the Department of Agriculture, based upon advice which that Department had received from domestic textile producers and exporters, that there would be serious administrative difficulties involved in implementing the export program on any basis other than direct cash payments. In support of this point was the fact that only 10 percent of the cotton textiles exported are exported by firms which process raw cotton into textiles. The balance of our exports is handled by firms which are not textile manufacturers. Thus, it would appear that practical problems of implementation and enforcement would exist if instead of making cash payments to exporters, raw cotton were made available to domestic mills in the manner provided in S. 314.

It might be noted that the cash payments on the cotton products exported under the Department of Agriculture's program would not exceed the subsidy which the Commodity Credit Corporation grants on the equivalent amount of raw cotton exported. S. 314, however, would probably involve selling the raw cotton to domestic mills at a significantly lower price than that of raw cotton exported as such. This situation could be expected to develop because of the bill's objective of regaining the 1947–52 level of cotton textile exports. Exports in these 6 years, probably the highest in our history, averaged 904 million square yards annually, 65 percent higher than the 548 million square yards exported in 1957. In order to increase textile exports by such a magnitude, the price at which raw cotton would have to be made available to domestic mills would undoubtedly represent a heavy subsidy by the Government, even larger than the existing subsidy on raw cotton exports. The result would be to give preferred treatment to cotton textile producers and exporters over other American industries which also produce for export.

The reaction of foreign textile industries and their governments to this situation could be expected to be the adoption of counter measures. The U.S. Government, with its tremendous financial resources, would, in effect, be competing with foreign textile mills. The target period of 1947–52, a period when foreign textile industries were still being rehabilitated from the effects of World War II, and the wartime deferred demand for textiles, enhanced by the Korean emergency, was still quite large, would be viewed abroad as an abnormal and unreasonable objective. Countermeasures might well include countervailing or antidumping duties on American cotton textiles, possibly resulting in a reduction in American cotton textile exports, rather than the increase contemplated in S. 314.

In summary, therefore, the Department of State believes that the bill would present serious problems of administration and enforcement, the cost to the taxpayer would be heavy, foreign countries might well invoke measures which could bring about a reduction in our exports of textiles and other products, and serious foreign relations difficulties would be created, which could jeopardize the foreign policy objectives of the United States. For these reasons this Department recommends against the adoption of S. 314.

The Department has been informed by the Bureau of the Budget that there is no objection to the submission of this report.

Sincerely yours,

WILLIAM B. MACOMBER, Jr.,
Assistant Secretary
(For the Acting Secretary of State).

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