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Introduction

Section 163(b) of the Trade Act of 1974 (Public Law 93-618, 88 Stat. 1978) directs that, at least once a year, the United States International Trade Commission submit to the Congress a factual report on the operation of the trade agreements program. This report is the 32nd report to be submitted under section 163(b) and its predecessor legislation.

Executive Order 11846 of March 27, 1975, defines the trade agreements program as including:

> all activities consisting of, or related to, the negotiation or administration of international agreements which primarily concern trade and which are concluded pursuant to the authority vested in the President by the Constitution, Section 350 of the Tariff Act of 1930, as amended, the Trade Expansion Act of 1962, as amended, or the Trade Act of 1974.

The period covered in this report is calendar year 1980, although occasionally, to enable the reader to understand developments more fully, events in early 1981 are also reported. The report consists of a preface and five chapters. The preface sets the stage for the discussion of trade agreements activities in 1980 by describing the economic and trade performance of the United States during the year. Chapter I highlights two topics of special importance in the trade agreements sphere: the administrative implementation of the Tokyo Round agreements in the United States in 1981--the year during which most of the codes became operational; and the problem of economic adjustment in the automobile and steel industries. Chapter II discusses international trade agreements activities that took place within the GATT during 1980, while Chapter III focuses on trade agreements developments in other international fora (like the OECD), or bilaterally between the United States and other countries. Trade relations between the United States and its major trading partners are treated in Chapter IV, which also describes major economic and trade policy developments in those countries that have or could have an effect on the United States. The final chapter covers the administration of U.S. trade laws and regulations during 1980.

This report was prepared principally in the Commission's Office of Economics with assistance from the Office of Executive Liaison.

PREFACE

The U.S. Economy and U.S. Trade in 1980

Like other oil-importing industrial countries, the United States in 1980 was greatly affected by the "second oil shock" that started with the Iranian revolution in early 1979. Partly as a result of this shock, the United States experienced a sharp but brief recession that was concentrated in the second quarter of 1980. The economy recovered rapidly during the second half of the year.

Although real gross national product (GNP) declined at a record 9.9-percent annual rate between January-March and April-June 1980, by October-December the real GNP was only 0.3 percent below that of October-December 1979. Within this overall performance, interest-rate-sensitive sectors fared much worse than others: personal consumption expenditure (PCE) on durable goods fell at a 43-percent annual rate from the first to the second quarter and by 4.7 percent on a fourth-quarter-to-fourth-quarter basis. The corresponding figures for investment in nonfarm residential structures were a 51-percent annual rate of decline from the first to the second quarter of 1980 and a 13.5-percent fall from the fourth quarter of 1979 to the fourth quarter of 1980. Within these two sectors, PCE for new domestic autos and investment in single family houses were particularly weak.

By contrast, PCE for services rose 3.0 percent during the year, and net exports of goods and services rose 14.9 percent. Both increased merchandise exports and reduced imports contributed to the strong trade performance. The export rise was broad based, suggesting that the decline of the dollar during 1977 and 1978 had increased U.S. competitiveness. Exports of goods and services as a share of total U.S. economic output (GNP) were up sharply in 1980, to 9.9 percent from 8.9 percent in 1979 (see fig. 1).

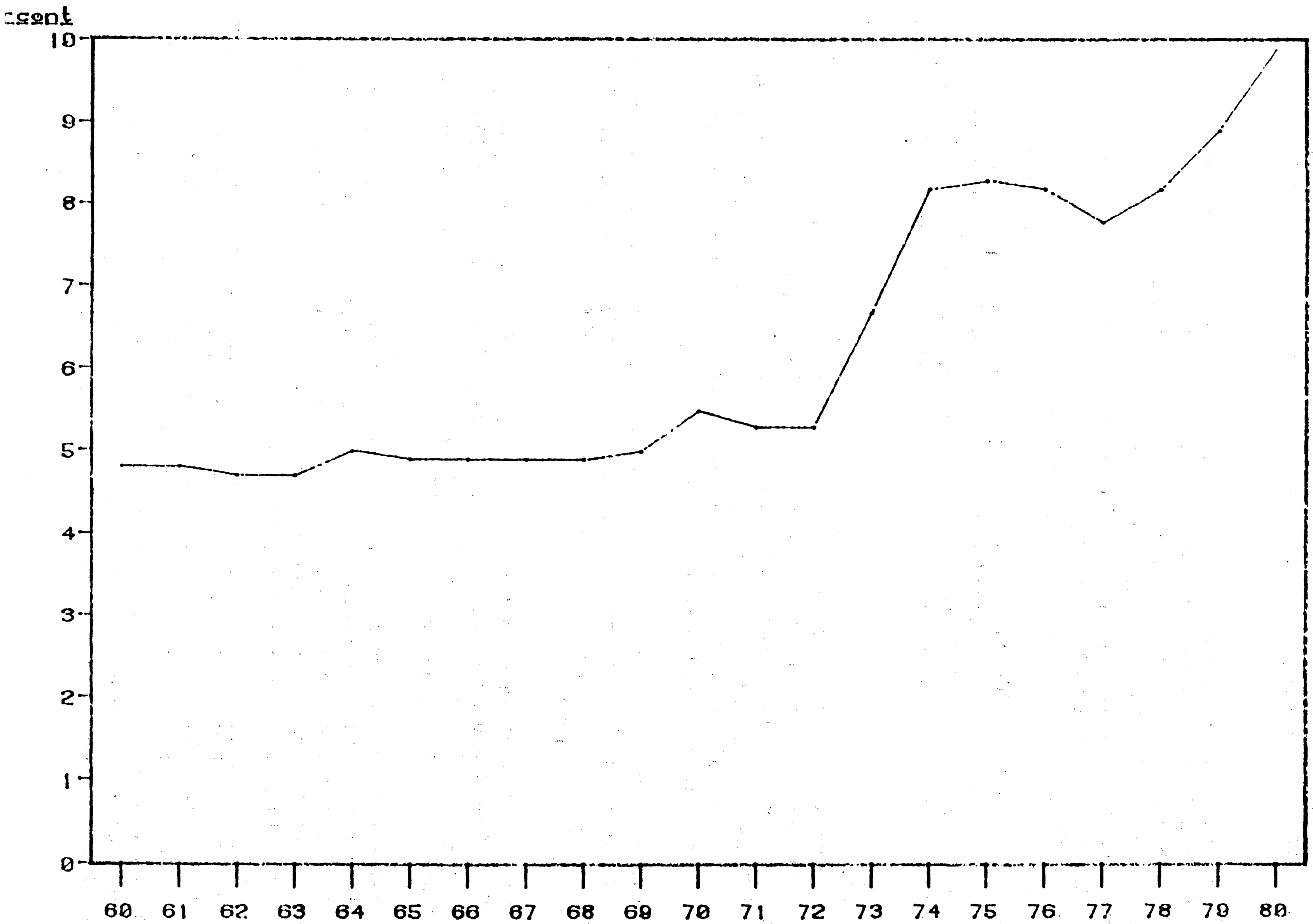
The volume of oil imports declined about 27 percent from what it was in 1979, reflecting both the economic slowdown and the effects of conservation. The ratio of U.S. oil consumption to real GNP has been falling at an increasing rate since 1978.

Despite the lack of large oil price increases, inflation levels were very high in 1980. The Consumer Price Index (CPI) rose 12.25 percent in 1980, nearly matching its 1979 rise. The CPI, excluding food and energy, rose 1.5 percentage points faster than it did in 1979.

Interest rates were extremely volatile during the year and reached record highs in March and again in December. In 1980, the Federal Reserve placed less emphasis than before on interest-rate movements and more emphasis on the direct control of the monetary aggregates. 1/ The ability of the economy to tolerate record high rates surprised many experts.

1/ The Federal Reserve Board had introduced a new procedure for controlling the money supply in October 1979. This new procedure was based on direct control of nonborrowed reserves; the old procedure relied on indirect control of nonborrowed reserves by controlling the Federal funds rate. This change may have resulted in an interest-rate rise in early 1980 that occurred faster and went higher than would have otherwise been the case.

Figure 1.--Ratio of U.S. exports of goods and services to GNP, 1960-1980.



Source: International Financial Statistics: Yearbook 1981, International Monetary Fund.

Primarily because the high U.S. interest rates caused large net capital inflows, the dollar followed the pattern of U.S. interest rates--first rising sharply, then falling during April-June, then rising again through the last half of the year. The dollar closed the year up 5.5 percent on a trade-weighted basis from its foreign-currency value at the end of 1979.

The unemployment rate, which began the year at 6.2 percent, hit a low of 6.0 percent in February, but then climbed to a 7.8-percent high in May. The rate edged downward in the ensuing months and ended the year at 7.4 percent.

Evolution of the economy in 1980

By the end of 1979, a 1980 recession was being widely forecast. The Economic Report of the President said: "The expected recession is likely to be mild and brief. Decline in real gross national product (GNP) should not extend much past midyear . . . GNP is forecast to decline by 1 percent . . . ." 1/

The reason for this gloomy outlook for the first half of 1980 was the surprising strength of the economy in 1979. Real per capita disposable income grew very slowly during 1979--in part because of the income transfer to oil-exporting countries that resulted from huge price increases in imported oil: the unit value of U.S. oil imports grew from $13.40 in December 1978 to $26.28 in January 1980. Consumers, however, maintained their living standards, despite the real-income squeeze, by reducing their personal savings rate to 4.7 percent in the 1979 fourth quarter--the lowest rate since 1949. At the same time consumers and businesses were taking on additional debt, despite interest rates that had begun to rise sharply in July-December 1979. Some slowdown in consumer spending in early 1980 seemed inevitable. 2/

The beginning of 1980, however, saw consumer spending remain strong: there was an unusual amount of speculation in the precious-metals markets; savings rates stayed low as consumers appeared to be adopting a buy-before-the-next-price-increase attitude; business credit demands were very strong, possibly in anticipation of credit restraints. All this was happening despite interest rates that were soaring above previous highs. By early March, with the bank prime rate at 17.75 percent and still moving up, the Administration felt that "without some additional action these (inflationary expectations) would validate and further accelerate wage demands and ultimately lead to an explosion of prices." 3/

In this environment of huge credit demands, the President announced an anti-inflation plan in a television address on March 14, and urged consumers to restrict their use of credit. The plan included invoking the Credit Control Act of 1969, which allows the Federal Reserve to employ a number of credit restraint measures. The response to the voluntary and mandatory parts of the program from both consumers and providers of credit was sharper than

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1/ Economic Report of the President, transmitted to the Congress, January 1980, p. 133.
2/ Ibid, p. 132.
3/ Ibid., p. 136.

anticipated. Outstanding consumer installment credit fell in April for the first time in 5 years. The use of credit slowed even in areas, such as auto and mortgage loans, that were not covered by the President's program. It is not clear, however, whether the President's program or the high level of interest rates was the more important cause of the decline.

Several midyear forecasts predicted that the economic slowdown would continue until the first quarter of 1981. 1/ Industrial production, however, increased in August and continued to increase for the rest of the year. Real GNP grew at a 3.1-percent annual rate during July-December 1980. Although the auto and housing sectors led the rebound, neither housing starts nor new passenger auto sales reached their pre-recession levels.

The brevity of the 1980 recession was due in part to businesses maintaining tight control over inventories in late 1979 and early 1980. Even when the sharp fall-off in final sales occurred, the involuntary accumulation of inventories was minimal because output slowed almost immediately. Because inventory levels were kept low, output recovered quickly once sales increased. The following tabulation shows a comparison of inventory levels during the 1974-75 recession with the 1980 recession:

Table 1.--Inventory accumulation, nonfarm businesses, 1974-75 and 1980

Item	1974		1975		1980			
	III	IV	I	II	I	II	III	IV
Billions of 1972 dollars (seasonally adjusted annual rates).	7.8	13.3	-15.6	-12.2	-1.4	0.6	-3.1	-5.6

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Several factors may have contributed to the smoother inventory cycle in 1980. First, the 1980 recession was widely expected. Second, no fear of a general raw-materials shortage existed, and thus little precautionary overstocking occurred. 2/ Third, high interest rates made inventory carrying costs high. Finally, improved management information systems helped businesses respond more rapidly to changing economic conditions. 3/

1/ For example, see the Federal Reserve's staff projections and the Organization for Economic Cooperation and Development's forecast for the United States.

2/ Economic Report of the President, transmitted to the Congress, January 1980, p. 144.

3/ OECD Economic Surveys: United States, 1980, August 1980, p. 36.

The second half of the year also saw the resurgence of money-supply growth. After falling below the lower limits of their target ranges in March and April, the monetary aggregates began increasing rapidly in May. By September all measures of the money supply were at or above the upper limits of their target growth ranges.

Although the money stock was growing faster than planned, it was not growing fast enough to prevent interest rates from rising once the recession ended. Thus, interest rates, which had hit their recession lows in June (T-bills) and July (Federal Funds), began climbing sharply in late July.

The normal lag in obtaining accurate data on current economic conditions was the primary reason the Federal Reserve misjudged the strength of the recovery and allowed the money stock to grow so rapidly: "In retrospect, the persistent high rate of monetary growth since July appears excessive; however, as events unfolded the picture was one of considerable ambiguity. . . . The extent of that rebound in economic activity was not clearly apparent until data were received in late September and October." 1/

By the November 18 meeting of the Federal Reserve's Open Market Committee (FOMC), it was clear that: (1) the strength of the economy had been severely underestimated; (2) in order to meet the money growth targets established in February and reaffirmed in July, it would be necessary to risk allowing interest rates to rise to their pre-recession levels.

In addition to expressing concern about the "possibility that the greater-than-anticipated strength of the recovery in recent months would be followed in early 1981 by a decline in real GNP," 2/ the FOMC members "expressed concern about inadvertently contributing to the volatility of interest rates, because of the implications of such volatility for economic activity, for inflationary psychology, and for the functioning of financial markets." 3/ Although not specifically cited by the FOMC, the international impact of interest-rate volatility via the exchange markets has, in the current year (1981), become a significant issue both for the United States and for its major trading partners.

The decision reached at the November 1980 meeting, and reaffirmed in telephone conferences on November 26, December 5, and December 12, was to stick to the money-supply goals established for 1980, "without (open market) operations being precisely constrained" by the Federal funds ceiling rate of 18 percent.

1/ Statement to Congress by Paul A. Volker (Chairman, Board of Governors of to Federal Reserve System), "Recent Developments in Monetary Policy," <u>Federal Reserve Bulletin</u>, vol. 66, No. 12, December 1980, p. 952.

2/ "Record of Policy Actions of the Federal Open Market Committee," <u>Federal Reserve Bulletin</u>, January 1981, p. 29.

3/ <u>Ibid</u>., p. 30.

As a result of this decision, the narrow money supply aggregates grew little in November and December, and by yearend were well within their target ranges. The growth of M_2 and M_3 also slowed; these monetary aggregates ended 1980 just above their established upper limits. Although interest rates did reach their spring highs in mid-December, they soon retreated. Despite this monetary turmoil, economic growth remained strong in October-December 1980 and was very rapid in the January-March 1981.

U.S. international transactions in 1980

Balance of payments.--The U.S. current account was in rough balance in 1980 for the second straight year, moving to a $3.7-billion surplus, after a $0.7 billion deficit in 1979. The most notable aspect of the U.S. trade picture in 1980 was an improvement in the merchandise trade balance--from a deficit of $29.4 billion to a deficit of $25.3 billion. 1/ This was achieved despite a 63-percent increase in the average unit value of petroleum imports that resulted in the oil import bill increasing by nearly $19 billion from what it was in 1979.

The services balance--of which the largest component is earnings from direct investments abroad--was almost unchanged at a surplus of $36.1 billion. This followed several years of improvement and a particularly sharp gain in 1979, which was largely attributable to a rise in U.S. petroleum company earnings. The remaining component of the current account--unilateral transfers--moved from a deficit of $5.7 billion to a deficit of $7.0 billion.

Main features of the capital account in 1980 included an $8.2 billion increase in U.S. official reserve assets, as the U.S. Government took advantage of periods of dollar strength to buy foreign currencies, mainly German marks. Foreign official reserve assets in the United States were up $15.5 billion, due principally to increased Organization of Petroleum Exporting Countries (OPEC) investment in U.S. Treasury and corporate securities. Net foreign direct investment in the United States was $10.8 billion, whereas net U.S. direct investment abroad was $18.5 billion. Both of these flows declined slightly from what they were in 1979. The large net private capital outflows in 1980 were almost offset by a positive statistical discrepancy of $35.6 billion. This discrepancy item, which has grown very rapidly in the past 3 years, is believed to consist of private capital inflows through unrecorded channels (i.e., not through banks), and to arise (as a counterpart to the recorded outflows through banks) from a close integration of U.S. and offshore financial markets via Caribbean branches of U.S. banks. 2/

1/ Trade figures cited are on an international accounts (IA) basis.
2/ Federal Reserve Bulletin, April 1981, "U.S. International Transactions in 1980," vol. 67, No. 4, p. 273.

Merchandise trade.--Year-to-year growth in U.S. export volume slowed to 8 percent in 1980 from 11 percent in 1979 (see table 2). The value of goods exported was up 22 percent, rising to $223.9 billion. U.S. exports grew strongly from 1978 through January-March 1980, probably as a result of the continuing favorable effect on U.S. competitiveness of the depreciation of the dollar during 1977 and 1978. The flattening of the U.S. export trend line during April-December 1980 coincided with a sharp dropoff in GNP growth in major developed country markets. The value of agricultural exports during 1980 grew at the same rate as it did during 1979 (18 percent) despite the limited embargo imposed by the United States on grains sales to the U.S.S.R. Lower sales to the Soviet Union were offset by higher sales to nontraditional markets in Eastern Europe, China, and Latin America.

Table 2.--Percentage change, 1980 from 1979 in value and volume of U.S. trade

Item	Exports			Imports		
	Total	Non-agricultural	Agricultural	Total	Non-petroleum	Petroleum
Value------	22	23	18	18	13	32
Volume-----	8	6	10	-3	-	-20

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

Import volume decreased 3 percent from 1979 to 1980. Import value was up 18 percent to $249.3 billion. There was a sharp decrease in the volume of oil imports--to 7.1 million barrels per day from the 8.81 million barrels per day in 1979--due to a combination of factors: a lower level of U.S. economic activity, conservation, substitution of alternative fuels for petroleum, and slower stock building. 1/ Imports as a percent of petroleum consumption fell to 42 percent in 1980 from 48 percent in 1979. Sharply higher prices, though, led to an increase in the oil import bill of $19 billion from what it was in 1979. This represented fully one-half of the total increase in the value of U.S. imports over 1979 and brought the share of petroleum in total imports to 32 percent.

Nonpetroleum imports, like U.S. exports, had been following an improved trend since 1978, probably owing to better U.S. price competitiveness. There was a sharp drop in these imports in April-June 1980, as the United States went into recession. The decline was concentrated in industrial supplies, imports of capital goods were only slightly affected.

There were several notable shifts in bilateral merchandise trade balances in 1980. The U.S. trade surplus with the nine countries of the EC grew from $9.2 billion to $17.6 billion, as the value of U.S. exports jumped 26 percent. The deficit with OPEC countries rose from $30.5 billion to $38.2 billion. The negative balance with Japan rose moderately--from $8.6 billion to $10.4 billion, because of rapid growth of imports of automobile products and industrial machinery.

1/ *Ibid.*, p. 271.

CHAPTER I

HIGHLIGHTS AND SELECTED ISSUES IN TRADE AGREEMENTS ACTIVITIES IN 1980

In 1980, the United States and its trading partners in the General Agreement on Tariffs and Trade (GATT) began the process of implementing the various tariff and nontariff agreements negotiated during the Tokyo Round of Multilateral Trade Negotiations (MTN). On January 1, 1980, most of the industrial-country participants in the Tokyo Round made the first of a series of generally annual tariff cuts agreed upon in the negotiations. Japan began its staging on April 1, 1980. When completed, these tariff cuts will have reduced the average duties on imports of manufactured goods by about one-third, a cut comparable to that achieved in the Kennedy round of 1964-67. On January 3, 1980, the United States basic tariff-cutting authority provided by Section 101 of the Trade Act of 1974 for use in the Tokyo Round negotiations expired. 1/

Seven of the nine multilateral Tokyo Round agreements on nontariff barriers to trade also came into effect on January 1, 1980. These included agreements covering subsidies and countervailing duties, technical barriers to trade, import licensing procedures, aircraft, a revised antidumping code, and the two agricultural arrangements covering bovine meat and dairy products. The agreements covering Government procurement and customs valuation 2/ entered into effect on January 1, 1981.

To most of the countries of the world 1980 brought growing inflation and unemployment, rising interest rates and exchange rate instability, and large trade and payments imbalances. Many countries experienced difficulties in adjusting to such economic dislocations. Governments were consequently under pressure to restrict competition from imports and to assist exports by subsidies or other means. As a symptom of this pressure, a number of trade disputes arose concerning, among other products, steel, automobiles, textiles, sugar, tuna, and apples. The interaction of economic adjustment with trade actions in two key basic industries—automobiles and steel--is discussed more fully below.

The economic difficulties of 1980 were also reflected in the low growth of both world production and world trade--both recording their third lowest gains since the Second World War. Growth in the volume of world production

1/ Very limited tariff-cutting authority was still available after Jan. 3, 1980, in the form of the so-called "residual negotiating authority" of Section 124 of the Trade Act. The Sec. 124 authority continued for an additional two years, and provided a means by which the United States could make final adjustments in the Tokyo Round package of tariff concessions. This authority was not used during 1980, but some of the procedural prerequisites for using it were initiated.

2/ The United States and the European Community (EC) implemented the agreement on customs valuation on July 1, 1980.

slowed for the fourth consecutive year, to 1 percent in 1980, and year-to-year growth in the volume of world trade was 1.5 percent, down from 6 percent in 1979. The value of world trade reached nearly $2 trillion in 1980, or approximately 20 percent more than the value in the previous year. Most of this increase is attributable to the strong rise in dollar unit values. On an f.a.s. basis, the U.S. trade deficit decreased compared with that recorded in 1979. U.S. exports increased by about 21 percent, to $220.5 billion, and imports increased by 17 percent, to $240.8 billion. U.S. trade surpluses with the European Community and Mexico increased in 1980, compared with that in 1979, but U.S. deficits with Canada and Japan also increased.

MTN Implementation in the United States

Implementation of the vast majority of the tariff concessions negotiated by the United States in the Tokyo round began on January 1, 1980, when the first stage of tariff reductions for a few thousand TSUS items were put into effect by Presidential Proclamation 4707 of December 11, 1979. The first stage of tariff reduction for several hundred TSUS items, mainly benzenoid chemicals subject to the American Selling Price system, and benzenoid related chemicals, began on July 1, 1980, when the United States, along with the European Communities, implemented the Customs Valuation Code, (Presidential Proclamation 4768 of June 28, 1980).

Most tariff reductions will be made in eight equal stages, with the final stage becoming effective on January 1, 1987. There are numerous exceptions to this general rule, however. The United States implemented the full concession on January 1, or July 1, 1980, for a few hundred TSUS items, delayed the first stage of implementation until January 1, 1982, for textiles, apparel and steel products, and varied the staging of concessions for several hundred more TSUS items to accelerate or slow down the implementation of the tariff concessions. Other countries have made similar exceptions, notably our principal trading partners, Canada, Japan, and the European Community. The implementation of some U.S. tariff concessions is delayed until certain conditions upon which they are contingent are fulfilled.

The Agreements on Antidumping, Subsidies and Countervailing Duties, Technical Barriers to Trade (Standards), Licensing, Trade in Civil Aircraft, and the Arrangements Regarding Bovine Meat and Dairy Products also entered into force for the United States on January 1, 1980, and the United States, together with the European Community, implemented the Agreement on Customs Valuation on July 1, 1980, 6 months before the agreement itself was to become effective. The United States also began preparations for implementing the Agreement on Government Procurement, scheduled to become effective January 1, 1981.

The first step toward implementation of these agreements was taken in 1979 with passage of the Trade Agreements Act of 1979 which approved the agreements, authorized their acceptance by the President (which would give them the force of U.S. law as executive agreements) and authorized the President to take such actions necessary to implement them under U.S. law. The Trade Agreements Act also made extensive revisions in U.S. statutes on antidumping, countervailing duties, and customs valuation to bring them into conformance with the agreements on those subjects. These revisions in turn necessitated extensive revisions in the rules of procedure of the U.S. International Trade Commission and the Commerce Department's International Trade Administration, which would be administering functions under the revised statutes on antidumping and countervailing duties, and in the Treasury Department's customs regulations dealing with valuation. In preparation for the change in valuation practices, the Customs Service held training courses for its agents throughout the country.

In late 1980, the Secretaries of Commerce and Agriculture established technical offices in their departments to carry out functions assigned to those departments by the President under the Agreement on Technical Barriers to Trade. The Bureau of Standards in the Department of Commerce assumed the functions of the standards information center called for in that agreement.

Aside from the proclamation of duty-free treatment for the civil aircraft products covered by the Aircraft Agreement and the waiving of provisions of the Buy America Act, no other special administrative actions were necessary to implement that agreement. No special administrative actions by the United States were required to implement the Licensing Procedures Agreement or the Arrangements Regarding Dairy Products and Bovine Meat.

In preparation for the entry into force of the Agreement on Government Procurement and in order to ensure that all Federal agencies meet their full obligations under the agreement, and to delineate responsibilities regarding the implementation of the agreement, the President issued Executive Order 12260 on December 31, 1980. The executive order mandated that all covered Federal procurement be conducted in full compliance with the agreement. The order also delegated authority to the USTR to waive in the case of any covered purchase the application of any law, regulation, procedure, or practice which would discriminate against or among the products of parties to the agreement. On January 1, 1981, the U.S. Trade Representative issued a determination exercising this authority, thereby waiving, inter alia, the Buy America Act, and special preferences afforded by the Department of Defense, for all covered purchases from parties to the agreement. Subsequently, all relevant regulations were revised to take code obligations into account.

In the MTN the United States had agreed to abolish the so-called "wine-gallon" method of taxing and levying duties on imported distilled spirits, which constituted a significant discrimination against imported products. To implement this concession, the Trade Agreements Act substantially revised the provisions of the Internal Revenue Code of 1954 on the taxation of distilled spirits. Corresponding revisions were then made late in 1979 in the regulations of the Internal Revenue Service implementing these provisions.

At the same time that the United States was implementing the MTN agreements domestically, a program was also launched to monitor and enforce U.S. rights under the agreements in other countries.

Section 901 of the Trade Agreements Act of 1979 amended section 301 of the Trade Act of 1974 to provide a more effective procedure for insuring enforcement of U.S. rights under trade agreements and for relief from certain unfair and burdensome foreign trade practices. An industry, experiencing a problem with its export trade, may bring its particular problem, whether or

Government for resolution under section 301, which, inter alia, authorizes the President to take action to enforce U.S. rights under any trade agreement and to respond to a foreign policy or practice that is inconsistent with or denies U.S. benefits under a trade agreement. The President may take all appropriate and feasible action within his inherent and statutory authority to enforce U.S. rights or obtain elimination of the acts, policies, or practices referred to in section 301. In addition, he may suspend or withdraw benefits of trade agreements granted by the United States or impose retaliatory import restrictions. In May of 1980 the U.S. Trade Representative, which administers section 301, issued revised regulations for proceedings under that section (19 CFR Part 20006).

The International Trade Administration of the U.S. Department of Commerce in 1980 devised an elaborate monitoring and reporting procedure for its commercial attaches abroad to report on developments in their host countries which may affect U.S. rights under the various non-tariff measures agreements. The requirements for monitoring activities relevant to operation of the Customs Valuation Agreement are an example. Commercial attaches are to report from their posts the following types of information on a continuous basis: (1) texts of legislation, regulations, judicial decisions, administrative rulings and procedures relevant to implementing the agreement; (2) any significant changes in the implementing procedures that come under consideration following entry into force of the agreement; (3) any complaints regarding the valuation of goods entering any of the signatory countries from the United States, together with a full explanation of the facts and details of the complaints, and an evaluation of the basis for the complaints and recommendations for action when appropriate. In addition, posts were instructed to keep abreast of and report important developments in the agreement that would be helpful to U.S. traders. Similar reporting requirements were established for each agreement on a continuing basis. The establishment of these monitoring and reporting requirements indicates the strong U.S. intent to see that its rights under the various agreements are not impaired.

Problems of Economic Adjustment in Basic Industries

During 1980, large-scale adjustment of the economic structures of the United States and other countries continued to cause problems and conflicts in trade relations. 1/ Dramatic increases in the relative price of oil versus

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1/ One of the basic functions of any economic system is to provide for the efficient allocation of productive resources--labor, capital, and so forth. As economic conditions change, the allocation of resources in an economy must also change if its output is to increase, or even to be maintained. The term "structural adjustment" refers to this reallocation process, either at the level of the individual firm or at the level of industries and regions. Many kinds of changes could require (or at least indicate the need for) structural adjustment of an economy: technological change, changes in resource availability, changes in consumer preferences, and so forth. Adjustments to these changes are being made continuously in market economies. Though there are sometimes large costs involved in this process--capital losses or bankruptcies, "frictional" unemployment as workers move from one line of work to another--adjustment is essential to the future ability of the economy to provide stable or rising incomes.

other goods have caused massive payment imbalances in many countries. Countries have attempted to adjust to the increased price of oil by introducing policies to reduce their dependence on imported oil and by increasing investment in energy-efficient equipment. Partly because of the increasing importance of oil-exporting developing countries, and partly because many newly industrializing countries with relatively low wage scales are beginning to export the full range of manufactured goods, traditional trading relationships are shifting. In the past two decades, the industrial countries' share of world trade has declined, whereas the developing countries' share has increased, particularly in the case of the traditional oil-exporting developing countries. As the relative importance of heavy industries to the gross national product of developed countries has declined, the share of employment, investment, and value added in the services sector has increased at an accelerating rate.

Compounding these adjustment problems in recent years has been the slowdown in the rate of economic growth and concomitant increase in the rate of inflation, particularly among developed market economies. As a result, the costs associated with adjustment are more difficult to absorb. For example, with high unemployment, workers displaced by plant closings are less likely to find new work. At the same time, lower profit reduces the ability of firms to invest in new manufacturing processes or to convert to energy-efficient equipment.

In the United States, the flexibility of the economy is declining even as the need to change is increasing. For example, inflation is making it increasingly less attractive for workers to relocate. This is particularly true for an older worker whose entire equity may be tied up in his house. Also, because some industries are characterized by large plant size, are geographically concentrated, and often dominate their local labor markets, workers and capital are not reallocated smoothly when structural change occurs.

Problems associated with structural adjustment in basic industries often become international trade problems. Faced with high inflation, high unemployment, and stagnant growth, governments have looked for ways to control the adjustment process and to minimize its impact. 1/ Unfortunately, no international concensus exists on the appropriate role of governments in structural adjustment, or on the distribution of adjustment costs among economies. 2/ In this situation, some governments have assumed greater direct

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1/ In the United States, there was during 1980 great interest in the concept of "reindustrialization," and an examination took place within the Federal Government of the possibility of formulating some sort of "industrial policy" that would have the government play a major role in facilitating and coordinating the reallocation of resources in the economy. Though the debate is not over, the current view is that direct Federal involvement in allocating capital or in supporting older industries that face major adjustments is inappropriate. See the Economic Report of the President, Transmitted to the Congress January 1981, p. 128.

2/ In recent years various committees of the OECD have studied these adjustment issues. An important result of this work was the adoption, at the meeting of the OECD Council at Ministerial Level in June 1978, of a document called Policies for Adjustment: Some General Orientations. These Orientations recognize the need for adjustment, and call for "a fair sharing of the costs of adjustment."

responsibility for the social consequences of the adjustment process by nationalizing industries, or by giving subsidies designed to ease--or even to resist--structural changes. To limit the international pressures on domestic industries, governments have erected various nontariff barriers such as quantitative restrictions, voluntary restraint agreements, or reference or trigger-price mechanisms (TPM), and they have increased the application of countervailing and antidumping duties. The sections that follow describe trade actions during 1980 in two industries--autos and steel--that are undergoing rapid structural change worldwide.

Automobiles

Beginning in mid-1979 and throughout 1980, increased automobile imports from Japan caused tension among the United States, Japan, and the European Community. Some U.S. and European auto producers claimed that increased imports of Japanese cars hurt their industries. Japan contended that high gasoline prices, economic recession, consumer preferences--rather than increased imports--were responsible for the problems of the United States and EC auto industries.

U.S. actions.--On June 12, 1980, the United Auto Workers (UAW) union petitioned the U.S. International Trade Commission, under section 201 of the Trade Act of 1974, to recommend imposition of quotas and higher tariffs on car and light-truck imports for a period of 5 years. The UAW petition stated that the U.S. auto industry needed temporary relief from import competition to help it complete retooling to build more fuel-efficient cars. On August 4, the Ford Motor Co. also filed a petition, asking the Commission to recommend quotas on car imports and a 25-percent duty on imported lightweight trucks.

In July, President Carter unveiled a $1-billion package of emergency measures designed to assist auto manufacturers, workers, dealers, and auto-producing communities. In addition, he requested that the Commission expedite its investigation. The Commission refused the request.

The Commission held hearings on October 8-11 on the question of whether imported vehicles had substantially injured, or were likely to injure, the U.S. automobile industry. On November 10, by a 3 to 2 vote, the Commission determined that automobiles, trucks, and truck bodies and chassis are not being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industries producing like or directly competitive articles. Some Commissioners cited, as causes of problems faced by the U.S. auto industry, a decline in demand for automobiles resulting from overall economic conditions 1/ and a shift in demand away from large cars to small cars, rather than a shift away from domestic cars to imports.

Congressional action on autos.--Committees of both houses of Congress met throughout 1980 and into 1981 to discuss the health of the U.S. automobile industry, the increased volume of automobile imports from Japan, and possible

1/ Economic recession, credit difficulties, rising costs of car ownership.

methods of resolving the U.S. industry's problems. Witnesses at the hearings included officials from the Office of the United States Trade Representative, Department of State, the Congressional Budget Office, Department of Commerce, United Auto Workers, AFL-CIO, Ford Motor Co., General Motors Corp., Chrysler, American Motors Corp., Checker Motors Corp., Volkswagen, Automobile Importers Association of America and the American Imported Automobile Dealers Association. At the spring 1980 hearings, representatives from the UAW and Ford Motor Company pushed for import restrictions on automobile imports from Japan. They also wanted Japan's automakers to build assembly plants in the United States and suggested passage of local content-requirement legislation to require a high proportion of U.S.-made parts in U.S.-assembled vehicles. Other witnesses claimed that import restrictions would not alleviate unemployment in the U.S. auto industry. Similar opinions were expressed at hearings held later in the year. Spokesmen for the Carter administration opposed both import-quota and local content-requirement legislation.

No legislation restricting imports of Japanese automobiles was passed during 1980. However, following the U.S. International Trade Commission determination in November of 1980 that automobile imports were not a substantial cause of serious injury to the U.S. auto industry, hearings were begun in the Congress to study the possibility of passing legislation authorizing the President to negotiate auto import restraints with Japan. President Carter had stated that without a Commission finding of injury due to imports he lacked the statutory authority to negotiate and implement an orderly marketing agreement (OMA) on autos with Japan. A resolution was subsequently passed in the House of Representatives authorizing the President to negotiate import restrictions on cars, light trucks, and auto parts, but the Senate did not pass the measure before it adjourned in December.

Bilateral consultations.--Bilateral U.S.-Japanese consultations on the automobile issue continued throughout 1980. In May 1980, following spring negotiations, the Japanese Government announced a package of measures designed to help resolve the automobile issue in a way that did not adversely affect the general economic relationship between the United States and Japan. The Japanese statement described "steps the Japanese industry concerned has decided to take thus far, and the steps the Japanese Government has already taken or will take, for facilitating entry into the Japanese market of autos and auto parts." In conjunction with these measures, Japan expressed hope that the United States would make efforts to improve the export competitiveness of U.S. automobiles.

The package of measures, unveiled on May 15, consisted of promises to eliminate Japanese tariffs on most automotive parts, simplification of standards and inspection procedures, steps to promote Japan's imports of U.S.-made auto parts, and a pledge by the Japanese Government to "continue its policy of encouraging 'economically viable' investment by Japanese motor vehicle manufacturers in car, truck, and parts facilities in the United States." 1/ To promote Japan's imports of U.S. auto parts, the statement promised that tariffs on almost all auto parts would be reduced to

1/ Japan Insight; United States-Japan Trade Council; No. 20; May 23, 1980; p. 3.

zero. 1/ The action replaced an earlier Japanese decision to accelerate duty reductions on automotive parts agreed to during the Tokyo round of multilateral trade negotiations. In addition, a Japanese Government-auto industry mission was scheduled to travel to the United States to promote Japanese purchases of U.S. auto parts.

In response to requests by the United States, the statement indicated that Japan agreed to seven specific changes in Japanese standards and inspection procedures for imported cars. These were (1) agreeing to supply quickly information on changes in safety and environmental standards and inspection procedures, (2) simplifying the documentation that must be submitted for inspection, (3) approving installation of digital speedometers, (4) after testing, allowing the use of a new type of emissions-analysis equipment, (5) extending of the current 4 year time limit for the replacement of catalytic converters, (6) using a car's date of manufacture for determining the applicable safety standards instead of the date of application for inspection (as long as a notarized certificate showing the manufacture date accompanies the car), and (7) allowing the use of the same type-approval 2/ system for imported cars that is used for Japanese-made autos.

The statement said that the Japanese Government had and would continue to encourage investment by Japanese auto manufacturers in the United States but said that "under the free enterprise system, the final decision on such entrepreneurial matters as investment is the prerogative of the private sector." To encourage investment in the United States by Japanese motor vehicle manufacturers, a team of Japanese public sector and auto parts industry officials was scheduled to visit the United States in conjunction with the auto parts buying mission.

The Japanese Auto Components Buying Mission, composed of Japanese auto manufacturers, auto parts wholesalers, and government officials, visited the United States during September 1980. The mission was organized jointly by the U.S. Department of Commerce, the United States Trade Representative, and the Japanese Ministry of International Trade and Industry (MITI). At bilateral discussions held before the trip, representatives of the United States and Japan agreed on some objectives and ground rules. The main purpose of the parts buying mission was to accelerate the expansion of exports of U.S. auto parts to Japan. However, it was agreed that Japanese auto manufacturers would increase their volume of new purchases of U.S.-made components at a pace consistent with sound business practice; that is, more complex components would require longer lead times and relatively simple components could be adopted quickly for original-equipment and replacement markets. Japanese auto manufacturers also participated in a companion Automobile Components Investment Mission sent to discuss licensing and joint venture arrangements for some auto components. Both the Commerce Department and MITI agreed to monitor results for a 2-year period following the mission.

1/ On Mar. 31, 1981, the Japanese Diet passed a bill to eliminate duties on many auto parts imported into Japan, effective Apr. 1, 1981.

2/ Approval of a group of similar products based on a sample.

In early 1981, the Commerce Department issued a First Report on Follow-Up Activities to the Automobile Components Mission. While stating that it was then too early to attempt to assess the mission's full achievement, the report said some increase in Japan's purchases of U.S. auto parts--from earlier projected 1980 sales of $120 million to actual sales of $139 million--was already apparent. Some increase was also shown in U.S.-Japanese joint ventures and licensing agreements in auto parts manufacture. However, certain U.S. auto parts manufacturers felt the mission was a failure, and some complained that Japanese participants were not sincerely interested in purchasing U.S.-made auto parts.

During the latter part of 1980, Japan remained opposed to a formal agreement or voluntary restraints limiting U.S. automobile imports from Japan. However, Japanese officials made a number of public statements urging Japanese car manufacturers to moderate their car shipments to the United States. 1/

The European Community also experienced a sharp increase in the level of Japanese automobile imports into the EC market in 1980 (fig. 2). The greatest increase occurred in those countries without large domestic automobile industries--Ireland, Denmark, Belgium, Luxembourg, and the Netherlands--displacing autos produced in other EC countries. Even in Germany, with a large domestic auto manufacturing industry, Japan's share of the auto market rose from 5.6 percent in 1979 to 10.3 percent in 1980. Because of the displacement of European-manufactured automobiles by imports from Japan, the Europeans sought limits on imports of Japanese cars into the EC.

On November 18-19, shortly after the conclusion of the U.S. International Trade Commission auto investigation, European automobile industry leaders traveled to Tokyo to discuss auto trade problems with Japanese automobile manufacturers. The Europeans were pushing for limits on imports of Japanese cars into the European Community. The talks were held at a private, nongovernmental level. Participants had set up the discussions before the Commission case was concluded, and some sources suggested that the Commission's negative determination on the automobile investigation weakened the European officials' bargaining position and prevented their achievement of limits on car imports.

Before the meeting, several U.S. Congressmen voiced protest that limits on EC auto imports would violate international trade laws "in complete disregard to the letter and the spirit of the GATT." They pointed out that

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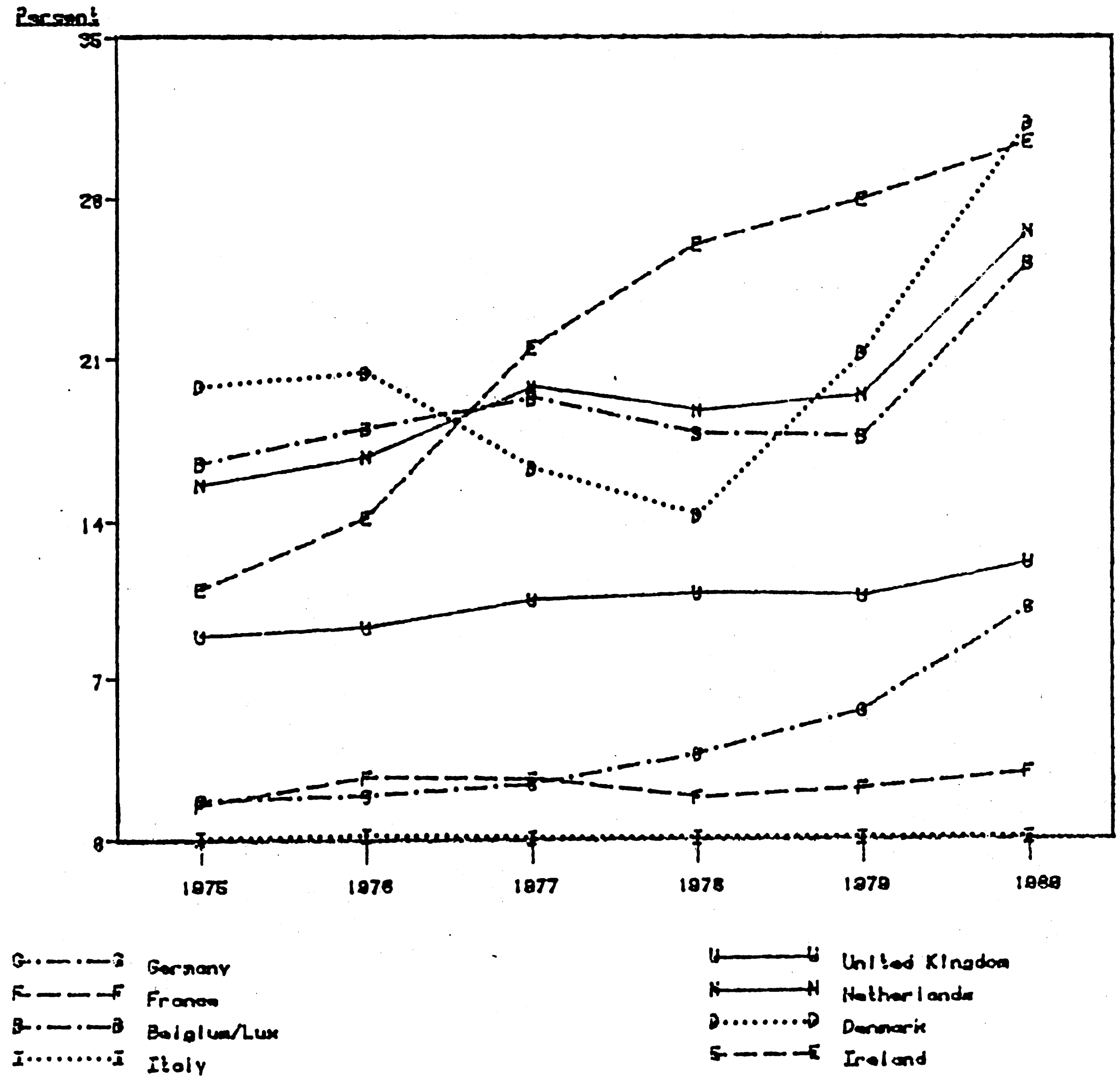
1/ On May 1, 1981, the Japanese Minister of International Trade and Industry announced that his country would limit passenger car exports to the United States to a total of 1.68 million units from April 1981 to March 1982--representing a cutback of 7.7 percent. In addition, exports for the following year (April 1982 through March 1983) will be limited to the sum of the export ceiling for the first year plus 16.5 percent of the estimated increase in sales of passenger cars in the U.S. market for that year.

Figure 2. -- European automobile markets: percent of new car registrations accounted for by Japanese imports, 1975-80



most EC countries already have limits on car imports from Japan, 1/ stating that "we have severely restrained ourselves in the name of open trade, while other nations of the world openly cavort in dividing up markets and setting cartels."

Steel

Depressed conditions in the steel industry worldwide stalled recovery in the EC and the United States in 1980. Against this background, three major policy developments in steel trade took place: (1) the filing of an antidumping suit by U.S. Steel Corp. against seven EC steel producers, prompting suspension, on March 21, 1980, of the Trigger-Price Mechanism in the United States; 2/ (2) the withdrawal of the antidumping suit and simultaneous reinstatement by the U.S. Government of a modified TPM; and (3) the introduction in the EC of a system of production quotas.

The implementation of the TPM in 1978 coincided with a change in the composition of U.S. imports of steel. The previously high Japanese import market share had been declining since mid-1977, and the EC's market share had increased. The downturn in market conditions in 1980, coupled with continued import penetration, led to the U.S. Steel antidumping action against steel producers in the EC, which had become the source of recent gains in import markets in the United States.

The antidumping action caused EC concern over the state of U.S./EC trade relations, it was felt that any increased restrictions on EC steel deliveries would jeopardize the EC's steel recovery plan. The EC repeatedly expressed concern to the United States, because they believed that the U.S. antidumping action and TPM suspension went against the 1977 OECD consensus on steel, which states that action by producing countries to deal with problems facing their industry and to facilitate restructuring should not damage traditional trade flows. 3/ The EC was in a position to potentially retaliate against U.S. exports of other goods, a situation which could have escalated into a trade war.

The withdrawal of the U.S. Steel antidumping complaints against the European producers and the U.S. Commerce Department's acceptance of this withdrawal created the conditions necessary for reinstatement of the TPM, in modified form, after an interruption of 7 months. The TPM was reinstated on

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1/ For instance, Italy limits imports of Japanese cars to about 2,000 per year, France holds Japanese imports to about 3 percent of their auto market, and the United Kingdom and Japan have a "gentleman's agreement" limiting Japan to about 10 percent of the United Kingdom auto market. See ch. IV of this report, European Community section, for further description of limits.

2/ The TPM is a reference price; sales below the TPM "trigger" an inquiry into possible dumping. For more information on the U.S. antidumping action and the TPM, see ch. V of this report.

3/ Commission of the European Communities, Fourteenth General Report on the Activities of the European Communities in 1980, p. 268.

October 8, 1980, for a period of 5 years. 1/ In announcing its intention to reinstate the TPM, the Department of Commerce stated that it had based its decision on, among other things, recognition by the U.S. industry of its critical need to accelerate the modernization of its facilities, and recognition by the Commission of the European Communities (CEC) of the need for adjustment by the European steel industry. As such, it represented a compromise which accommodated the interests of steel producers in both the United States and the EC. Producers in the EC retained access to the U.S. market unhampered by immediate prospects for continued dumping complaints by U.S. steel firms. In addition, under the new preclearance procedures, 2/ foreign steel suppliers were given the chance to gain exemptions from the trigger prices. 3/ U.S. steel producers were accommodated by the promised upgrading of TPM enforcement and the introduction of an "import surge" provision.

In the EC's internal steel market, demand dropped sharply in 1980, and the capacity utilization rate fell to 58 percent by September, 4/ the lowest rate ever recorded in the EC. In October, the CEC declared that the EC steel industry was confronted with a "manifest crisis" and invoked article 58 of the Treaty of Paris, 5/ which allowed the CEC to establish binding production quotas for all producers of crude steel and most rolled products. 6/ This measure represented the most severe instance of market intervention in the steel industry yet taken by the CEC. It supplemented the steps that had already been taken to insulate EC producers from external market disruption. Since 1978, steel imports into the EC have been subject to antidumping monitoring by the basic price system (BPS), a device similar to the TPM. Import-supplying countries are exempted from the BPS if they conclude bilateral voluntary export restraint (VER) agreements with the EC on yearly steel shipments. 7/

1/ As a result of further antidumping and countervailing duty complaints filed by various domestic steel companies at the end of 1981, the TPM was again suspended by the U.S. Department of Commerce on Jan. 11, 1982.

2/ Under the preclearance procedures, a foreign producer or exporter can ship steel mill products to the United States at prices below the applicable trigger prices without "triggering" an antidumping investigation, if he can prove that his prices are not at less than fair value. If Commerce finds that a fair value is below the trigger price, it may establish, for the quarter under consideration, a preclearance price based on the fair value adjusted where appropriate.

3/ After the reinstatement of the TPM in October 1980, only 1 EC firm, a Belgian stainless steel wire producer, applied for preclearance.

4/ See Commission Decision No. 2794/80/ECSC of 31 Oct. 1980, Official Journal of the European Communities No. L291, p. 1.

5/ Treaty establishing the European Coal and Steel Community, 140.

6/ OJEC L291, art. 2, p. 4 (1980).

7/ The first VER's were concluded in 1978 and encompassed nearly all steel imports to the EC. They have been renewed yearly since then with most supplying countries.

Under the production quota system instituted by the EC, the Commission set quotas on maximum production levels and limits on steel deliveries to EC customers for each EC steel firm. Limits on steel deliveries to EC customers were based on a ratio determined by the pattern of a firm's steel deliveries to its customers in the Community and in third (non-EC) countries during 1977-80. No firm may make steel deliveries to EC customers in excess of the amount set by its assigned ratio of EC deliveries to total deliveries. 1/ Thus, if a firm's exports to third countries are particularly low in the current period, it will be constrained in the amount of deliveries it can make to EC customers. In principle at least, this puts added pressure on the firm to increase exports up to the point where its ratio of Community to total shipments falls to the base-period ratio. This behavior will allow it make full use of its quotas for Community deliveries and thus maximize production under the quota system. 2/

In summary, policy developments in the EC and the United States in 1980 contained two related trends in steel trade. First, producers in the EC apparently continued to use exports as a means of maintaining capacity utilization rates, thus creating downward pressure on steel export prices. As a result, the United States and other major importing countries have instituted mechanisms to monitor prices of imported steel in order to better gauge market conditions.

1/ Specifically, the ratio is based on the pattern of deliveries in those "12 months of the period from July 1977 to June 1980 in which the total production of the four groups of rolled products was highest."

2/ Assume, for example, a production quota of 100 units, a delivery ratio of 0.9 and foreign exports of 5 units. The maximum allowable amount of EC internal deliveries, x units, will be determined by $.9 = \frac{x}{x + 5}$. The solution x = 45 shows that, even though the production quota is set at 100 units, the firm may not deliver more than 50 units in all. By increasing its exports to 10 units, however, the new solution for allowable EC deliveries is x = 90, permitting the firm to fill its entire production quota.

CHAPTER II

GATT ACTIVITIES DURING 1980

Introduction

The year 1980 marked the beginning of the post-Tokyo Round period of the operation of the General Agreement on Tariffs and Trade (GATT). It was the year in which the member countries of the GATT moved out of the period of lengthy multilateral trade negotiations (MTN) on revised and improved rules for international trade and into a period of implementation of those rules and of establishing new GATT bodies to administer those rules. The activities of GATT in 1980, however, extended well beyond MTN-related matters. The program for future GATT work, which had been drawn up in 1979 after substantial completion of the Tokyo Round, was carried forward with particular attention to issues affecting trade with developing countries. In the area of dispute settlement, a record 13 trade conflicts were submitted to the GATT in 1980 for conciliation and arbitration. This reflected the difficulties faced by many countries in adjusting to rapid economic change and the resulting pressures on governments either to restrict competition from imports or to assist exports through the use of subsidies or other means. But as a GATT report points out, although these disputes are evidence that the international trading system is under stress, they also show that governments are continuing to put their faith in GATT rules as a basis for overcoming trade problems and as a way of preventing growing protectionism. 1/

As of yearend 1980, 85 countries were full members of the GATT, two were provisional members, and 30 former territories of contracting parties were applying the GATT de facto, pending final decisions on their future commercial policy. A list of these countries appears on the following page.

The GATT Council of Representatives is the central organ of the GATT and oversees the operation of the General Agreement between sessions of the Contracting Parties. 2/ It supervises the agendas of the sessions and the work of working parties and other bodies established by the Contracting Parties, handles most technical matters, and reviews the reports of working parties and other subsidiary bodies. It then makes recommendations to the Contracting Parties on the adoption of these reports. Established in 1960, the Council is composed of representatives of all contracting parties willing to accept the responsibility of memebership therein. The Council met seven times in 1980. In November 1980, the Council reported on its work since the 35th session of the Contracting Parties in November 1979.

1/ GATT Activities in 1980, General Agreement on Tariffs and Trade, Geneva, 1981, p. 6.

2/ Contracting Parties (capitalized) refers to the GATT members acting jointly as a body.

GATT Membership at Yearend 1980

Contracting Parties to the GATT (85)

Argentina
Australia
Austria
Bangladesh
Barbados
Belgium
Benin
Brazil
Burma
Burundi
Cameroon
Canada
Central African Republic
Chad
Chile
Congo
Cuba
Cyprus
Czechoslovakia
Denmark
Dominican Republic
Egypt
Finland
France
Gabon
Gambia
Germany, Fed. Rep. of
Ghana
Greece
Guyana
Haiti
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Kenya
Korea, Republic of
Kuwait
Luxembourg
Madagascar
Malawi
Malaysia
Mauritania
Mauritius
Netherlands
New Zealand
Nicaragua
Niger
Nigeria
Norway
Pakistan
Peru
Philippines
Poland
Portugal
Romania
Rwanda
Senegal
Sierra Leone
Singapore
South Africa
Spain
Sri Lanka
Suriname
Sweden
Switzerland
Tanzania
Togo
Trinidad and Tobago
Turkey
Uganda
United Kingdom
United States of America
Upper Volta
Uruguay
Yugoslavia
Zaire
Zimbabwe

Acceded Provisionally (2)

Colombia
Tunisia

Countries to whose territories the GATT has been applied and which now, as independent States, maintain a de facto application of the GATT pending final decisions as to their future commercial policy (30)

Algeria
Angola
Bahamas
Bahrain
Botswana
Cape Verde
Dominica
Equatorial Guinea
Fiji
Grenada
Guinea-Bissau
Kampuchea
Kirbiati
Lesotho
Maldives
Mali
Mozambique
Papua New Guinea
Qatar
St. Lucia
St. Vincent
Sao Tome and Principe
Seychelles
Solomon Islands
Swaziland
Tonga
Tuvalu
United Arab Emirates
Yemen, Democratic
Zambia

A discussion follows of some of the key issues before the GATT Council in 1980.

The GATT Secretariat

On October 1, 1980, Arthur Dunkel of Switzerland assumed the position of Director-General of GATT, succeeding Olivier Long of Switzerland who had served in that position since May 1968.

In June 1980, Mr. William B. Kelly, Jr. of the United States, a former associate U.S. Trade Representative, became one of GATT's two Deputy Directors-General. Mr. Kelly succeeded Mr. Gardner Patterson, also of the United States. The other GATT Deputy Director-General post continued to be held by Mr. Madan G. Mathur of India. Mr. Mathur has held the post since 1973.

GATT work program

In 1979, the Consultative Group of Eighteen (CG-18) proposed a post-MTN work program for the GATT. The work program was adopted by the Contracting Parties at the annual session in November 1979. It included the following elements: implementation of MTN results, regular and systematic review of developments in the trading system, cooperation and consultation in agriculture through the multilateral agricultural framework, action on export restrictions and charges, continuation of the process of trade liberalization, attention to structural adjustment and trade policy, promotion of trade policy measures by both developed countries and LDC's with a view to assisting LDC's in their development efforts, acknowledgement of the importance of a new round of trade negotiations among LDC's, continuation of the technical assistance activities of the GATT initiated at the outset of the Tokyo round, and readaptation of these activities to meet the requirements of the LDC's. The work program did not specifically include minimum import labor standards or rules of origin, although these items remained on the CG-18 agenda.

At the annual session of the Contracting Parties in November 1980, the Contracting Parties reaffirmed their intention to pursue the agreed Work Program in order to consolidate and complete the trading system. The delegations cited the following elements of the work program as most important: implementing the MTN results; obtaining the widest possible participation by Contracting Parties in the MTN agreements; improving the multilateral safeguard system; determining GATT's role in the relationship between structural adjustment and trade policy (with emphasis on containing protectionist pressures and facilitating trade liberalization)· increasing attention to trade in agricultural products; increasing trade liberalization and improving access to markets; negotiating on the future of the Multifiber Arrangement; and strengthening GATT's role and its mechanisms, to maintain the integrity of the GATT system.

Accessions to the GATT

Colombia.--On November 28, 1979, the Contracting Parties adopted a decision permitting Colombia to accede to the General Agreement on the terms set out in the Protocol for the Accession of Colombia. Annexed to the Protocol was a schedule containing 36 items on which Colombia had bound its most-favored-nation tariff rate. The schedule reflects the results of tariff negotiations between Colombia and contracting parties undertaken in connection with Colombia's accession to the GATT. The text of the protocol was approved by the Contracting Parties at the meeting of the GATT Council on November 16, 1979. The Colombian delegation signed the accession protocol on April 17, 1980, subject to ratification in conformity with the constitution of Colombia. On December 7, 1980, the Colombian Senate unanimously approved Colombia's accession to the GATT. Colombian actions for accession were expected to be completed in 1981.

Mexico.--Following Mexico's application to accede to the General Agreement, an examination by a GATT working party of Mexico's foreign trade regime, and Council approval of the text of a draft protocol for Mexico's accession to the GATT, Mexican President Lopez Portillo announced on March 18, 1980, that Mexico was postponing GATT membership indefinitely. The Mexican president said that GATT membership at that time would not give Mexico the flexibility it needed for its economic development. However, Mexico continued to attend various council and committee meetings of the GATT with observer status.

China.--Tentative inquiries were made in 1980 by the Peoples Republic of China concerning possible GATT membership. This raised a question as to how and whether the GATT structure could deal with a developing nonmarket economy country with a trade potential the size of China's. In addition, some procedural questions arose concerning the status of GATT membership held by China when the GATT was negotiated in 1947. In 1980, the United States held preliminary informal discussion with its major developed trading partners on how to deal with these issues when, and if, the Peoples Republic of China formally requests membership in the GATT. During these discussions, the U.S. position was that it would accept Chinese membership in the GATT. However, the United States had not formulated a definitive position on the specific terms of accession that would be acceptable.

Consultative Group of Eighteen

The Consultative Group of Eighteen (CG-18) was established by the GATT Council in July 1975 on a provisional basis. Its mandate was renewed several times, and at the GATT Council meeting in November 1979, the CG-18 presented a report recommending that it be established as a permanent GATT body. The Council agreed to the establishment of the CG-18 as a permanent body, with a mandate identical to the original mandate except for the elimination of various references to the provisional character of the CG-18 and a reference to the Trade Negotiations Center.

The CG-18 consists of high-level representatives, nominated by governments, with trade policy responsibilities in their countries. Its purpose is to provide GATT, on a continuing basis, with a small but representative group in which existing and emerging trade policy issues can be discussed.

The group's membership includes 18 countries representing both developed and developing countries. The membership rotates as appropriate. In 1980, member countries included Argentina, Australia, Brazil, Canada, Egypt, the European Communities and their member states, Hungary, India, Japan, Malaysia for ASEAN (Association of Southeast Asian Nations), Nigeria, Norway for the Nordic countries, Pakistan, Peru, Spain, Switzerland, the United States, and Zaire.

In 1980, the CG-18 met two times--in July and in October. In addition, an informal meeting was held in September to discuss the issue of structural adjustment of national economies in response to changes in competitive conditions. Topics discussed at the meetings included the current economic situation and its implications for trade policies, structural adjustment and trade policy, the trade policy aspects of the North-South dialogue, and future work of the group.

In its discussion of the current economic situation and implications for trade policy, the CG-18 exchanged views on current trends and prospects in the international economy. Members agreed that it was essential, in the present persisting economic difficulties, to continue to resist protectionist pressures, and to make the fullest use of the opportunities and procedures which GATT offers for resolving trade problems. In this context, the CG-18 drew attention to the special difficulties of developing countries, particularly those problems arising from their heavy debt burden. The payments position of such countries can be restored only through the expansion of their export earnings, and any increase in protectionism can make this process very difficult. Consequently, it was indicated that new coherent proposals for the improvement of market access and the increase of trade flows are urgently needed.

On the subject of structural adjustment, the CG-18 recommended to the GATT Council that it establish a Working Party to develop specific proposals for the future work of GATT relating to structural adjustment and trade policy. The Council agreed to establish such a Working Party and invited it to report back to the Council by March 1981.

The CG-18 also discussed the trade policy aspects of the North-South dialogue at its July meeting, but was unable to agree on what the role of the GATT should be in these global negotiations. Since the nature of the contribution GATT could make would be easier to determine after the Special Session of the United Nations General Assembly began work on the global North-South negotiations, the CG-18 decided to return to this subject at a later meeting.

On its future work program, the CG-18 agreed that the problems of trade in services, export restrictions and charges, restrictive business practices, rules of origin, and dispute settlement would be taken up at later meetings. The CG-18 agreed that the secretariat should continue its study of trade in services, focusing on the links between trade in goods and trade in services and on the relevance of the existing commitments under the General Agreement and the MTN codes for trade in services. In addition, the CG-18 decided that the secretariat should prepare a factual note on the different rules of origin currently applied by GATT Contracting Parties in international trade.

Committee on Trade and Development

The Committee on Trade and Development, a standing body of GATT, each year reviews issues of trade interest to developing countries, including an examination of how member countries are putting into practice the provisions of Part IV of the General Agreement. Among the provisions of Part IV is an undertaking by developed member countries, to the fullest extent possible, to reduce and eventually to eliminate trade barriers on products currently or potentially of particular export interest to developing countries, and to refrain from setting up new barriers.

The Committee's role has been strengthened in the post-MTN period. At the annual session of the Contracting Parties in November 1979, a work program containing five main elements was drawn up for the Committee. The work program included:

(1) work on trade and development policies including trade liberalization in areas of special interest to developing countries;
(2) supervision of the implementation of the "enabling clause" 1/ negotiated in the MTN;
(3) examination of protective action by developed countries against imports from the developing countries;
(4) work on structural adjustment and trade of developing countries;
(5) special attention to the problems of least-developed countries.

As part of the implementation of the work program, two subcommittees were established in 1980. The Subcommittee on Protective Measures is to examine any new protective measures taken by developed countries against imports from

1/ The so-called "enabling clause" allows GATT contracting parties to provide differential treatment in favor of developing countries in respect of (1) tariff preferences accorded under the Generalized System of Preferences; (2) nontariff measures governed by codes negotiated under GATT auspices; (3) tariff and, under certain conditions, nontariff preferences granted to one another by developing countries in the framework of regional or global trade arrangements; and (4) special treatment of least-developed countries. For further explanation, see the 31st OTAP report, p. 51.

developing countries in the light of the relevant provisions of the General Agreement, particularly Part IV. The subcommittee met two times during 1980. It agreed on procedures for its work and examined a number of protective trade measures brought to its attention. The Subcommittee on Trade of Least-Developed Countries is concerned with the trade problems of least-developed countries, especially with regard to commercial policy and technical assistance. The Subcommittee met once in 1980 and discussed its future work plan.

The Committee held three meetings in 1980 and considered the following matters: (1) annual review of GATT member countries' implementation of Part IV and operation of the so-called enabling clause; (2) review of developments in international trade that have a bearing on the trade and payments position of developing countries; (3) work on trade liberalization; (4) structural adjustment and the trade of developing countries; (5) technical assistance to developing countries; and (6) expansion of trade among developing countries.

The Committee laid the groundwork for its future activities on trade liberalization in areas of special interest to developing countries. These areas were identified as tropical products, advance implementation of tariff concessions, tariff escalation for developing countries in developed country markets, and quantitative restrictions and other nontariff measures.

Textiles Committee

The Textiles Committee held its third meeting under the extended Arrangement Regarding International Trade in Textiles (also known as the Multifiber Arrangement, or simply MFA) on July 8-9, 1980. At the time of the meeting, 42 parties in the MFA had accepted the Protocol of Extension: Argentina, 1/ Austria, Bangladesh, Bolivia, 1/ Brazil, Canada, Colombia, Czechoslovakia, Dominican Republic, the European Economic Community, Egypt, 1/ El Salvador, Finland, Ghana, Guatemala, Haiti, Hungary, India, Indonesia, Israel, Jamaica, Japan, Korea, Malaysia, Mexico, Pakistan, Peru, the Philippines, Poland, Portugal on behalf of Macao, Romania, Singapore, SriLanka, Sweden, Switzerland, Thailand, Trinidad and Tobago, Turkey, United Kingdom on behalf of Hong Kong, United States, Uruguay, and Yugoslavia. Four former participants in the MFA (Australia, Nicaragua, Norway, and Spain) had not accepted the extended protocol by the date of the meeting. Furthermore, Paraguay had neither confirmed its original acceptance of the MFA, nor accepted the Protocol of Extension. The 42 countries accepting the Protocol of Extension accounted for four-fifths of the $84 billion worth of world trade in textiles and clothing in 1979.

At the meeting, the Textiles Committee considered a report by the Textiles Surveillance Body (TSB). The TSB supervises the implementation of the MFA on all cases where bilateral agreements concluded under the MFA have varied from the provisions of the MFA's Annex B (which sets out, for bilateral arrangements involving restrictions on textile imports, the base levels and

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1/ Accepted subect to completion of internal procedures. Egypt subsequently completed the ratification procedure and notified the GATT secretariat of its ratification with effect from Sept. 1, 1980.

percentages to be applied in specifying growth rates, and provisions for flexibility). In the discussion following presentation of the report, the developing countries, in a joint statement, noted that the large number of variations from the framework of the MFA showed the great extent to which importing countries were using the so-called "reasonable departures" clause, which allows them to place temporary restrictions on textile imports in particular cases. In practice, the developing countries said, some importing countries had departed from the norms and disciplines of the MFA in all of the agreements concluded by them, and not only in particular cases. Moreover, although importing countries are urged to return to the framework of the MFA in the shortest possible time, there is no mechanism for reviewing the situation or for setting a time-frame for the elimination or phasing-out of restraints.

Developing countries complained also that the MFA worked in such a way that textile imports from developed countries or from developing countries not members of the MFA were favored at the expense of textile imports from developing countries that were MFA participants. In addition, developing countries said, the MFA was tailored to the interests of developed countries and the operation of the MFA had failed to provide adequate protection against restrictions imposed on developing country exports. Bilateral negotiations had been conducted under the threat of unilateral action by the importing countries and efforts were made to maintain restrictions already in force. Developing countries had agreed to the "reasonable departures" clause with the expectation that the developed importing countries would adapt to the changes in world market conditions through necessary structural adjustment measures. However, the economic viability of the textile sector in most developed countries had not improved, and they therefore had resorted to departures from the framework of the MFA.

Representatives from developed countries expressed the belief that the MFA had contributed to the stable development of world textile trade by helping to adjust the interests of exporting countries with those of importing countries. They noted that a large part of the variations catalogued in the TSB report were permitted when reviewed in the context of the MFA as a whole. For the most part, the variations, which had resulted from changing economic conditions, had provided the flexibility necessary for the orderly expansion of trade. Thus, the catalogue of variations should not be regarded as constituting a catalogue of departures.

In December 1980, the Textiles Committee met, as required under Article 10:5 of the MFA, to consider whether the Arrangement should be extended, modified, or discontinued. 1/ Discussions were low-key with general agreement that continuation of the arrangement in some form would be desirable. No signatories had detailed positions on the form the new arrangement should take. The parties agreed that further discussions would be held in the spring of 1981.

1/ Article 10:5 requires the Textiles Committee to meet not later than one year before the expiration of the MFA to determine the future of the Arrangement. The extended MFA expires at the end of 1981.

Tariff Affairs

Extension of time-limit for acceptance of the Geneva (1979) Protocol and the Supplementary Protocol.--On November 24, 1980, the Contracting Parties extended until June 30, 1981 the time-limit for acceptance of the Geneva (1979) Protocol and the Supplementary Protocol which were the products the Tokyo Round negotiations. The time-limit for acceptance of the Protocols had been extended once before. 1/ In making its decision, the Contracting Parties urged individual contracting parties that had schedules annexed to the Protocols but that had not yet accepted the Protocols to make every effort to do so in the near future.

Committee on Tariff Concessions.--The GATT Work Program provided for the establishment of a Committee on Tariff Concessions. In January 1980, the Council agreed to establish this Committee with a mandate to supervise the task of keeping the GATT schedules up to date, to monitor the staged implementation of the Tokyo round tariff reductions, and to provide a forum for discussion of questions relating to tariffs. At the GATT Council meeting in November 1980, the Committee presented a summary of its activities. These included the establishment of a "loose-leaf" system for maintaining schedules of tariff concessions (see below), supervising the first stage of tariff reductions granted in the Tokyo Round, development of a proposal for procedural guidelines for negotiations under Article XXVIII (see below), and development of a proposal that the Committee should serve as the forum for examination of adjustments of specific duties under Article II:6(a) of the General Agreement.

Introduction of a loose-leaf system for the schedules of tariff concessions.--At its meeting in January 1980, the GATT Council considered a formal proposal by the Director-General for the establishment of a loose-leaf system for the schedules of tariff concessions which are annexed to the GATT and form a part of that agreement. The proposed loose-leaf system would modify the Decision of November 1968 on the certification of changes to schedules. Although a number of delegations welcomed the proposal in principle, other delegations wanted time to consider how such a system would affect their national customs tariff, initial negotiating rights, and so forth. Hence, it was decided to postpone consideration of the loose-leaf system until the GATT Council meeting in March 1980.

At that time, the Director-General submitted a revised proposal on the introduction of a loose-leaf system for the schedule of tariff concessions. The proposal noted that the existing system for the publication of tariff concessions had become outdated. With more than forty legal instruments (Protocols and Certifications) containing tariff concessions, it had become an extensive and time-consuming process to determine the status of a particular concession. Therefore, the Director-General proposed that the schedules of tariff concessions be published in the form of a loose-leaf document that could be continuously updated to reflect rectifications, modifications, withdrawals, and new concessions resulting from action under Articles II, XVIII, XXIV, XXVII, or XXVIII. The basis of the loose-leaf system would be a general consolidation of schedules. These consolidated schedules were to be submitted by September 30, 1980.

1/ It is the established GATT practice for the Contracting Parties or the Council to decide on an extension of the time-limit for the acceptance of such

The Director-General also proposed that initial negotiating rights (INR's) be indicated in the loose-leaf schedules. 1/ This would make the loose-leaf system as easy to use as possible and would remove the need for contracting parties to consult underlying documents. Furthermore, he proposed a rule that previous INR's would not be valid unless they were indicated in the loose-leaf schedules. Since the incorporation of previous INR's into the schedules would require time-consuming research into old negotiating records, the Director-General proposed that INR's be indicated in the loose-leaf schedules beginning on September 30, 1981, but that earlier schedules and negotiating records remain the official sources for interpreting concessions until January 1, 1987.

The Council adopted the Director-General's proposal on the loose-leaf system and also adopted a decision on the Procedures for Modification and Rectification of Schedules of Tariff Concessions. At the GATT Council meeting in November 1980, the Vice-Chairman of the Committee on Tariff Concessions noted that no contracting parties had been able to observe the September 30, 1980, deadline for the submission of draft consolidated schedules. At a December 1980 meeting of the Committee on Tariff Concessions, a number of countries, including the United States, indicated that they hoped to submit their schedules in 1981; however, other countries were unable to indicate a specific time-frame. The Chairman of the Committee did not set a new deadline, but urged countries to submit schedules as soon as possible.

Procedures for negotiations under Article XXVIII.--At meetings in July and October 1978, the GATT Council had initiated consideration of procedural guidelines for renegotiations under Article XXVIII, on the basis of a proposal made by the Director-General. These guidelines would supersede the guidelines that have been in effect since 1957. The matter was further discussed by the Committee on Tariff Concession in July and October 1980. In November 1980, the Committee presented to the Council a proposal for revised guidelines. The guidelines would not substantially change Article XXVIII procedures, but would spell out more precisely the procedures for conducting negotiations. The Council adopted the guidelines.

Update of nontariff measures inventories

As part of the continuing process of trade liberalization, the GATT Contracting Parties, in November 1979, agreed that the Secretariat should update the inventories of nontariff measures (NTM's). These inventories, which cover trade in both agricultural and industrial goods, were prepared as an information base for the Tokyo Round of multilateral trade negotiations. The inventories are unpublished and list hundreds of NTM's notified by governments as obstacles to their exports or as unfair advantages to their competitors. Although the inventories had served a very useful purpose during the MTN, both in the search for multilateral solutions and in bilateral and

1/ Formerly, INR's were indicated only in the working documents of schedules in connection with negotiations or with consolidation of schedules.

plurilateral negotiations on individual barriers, they had both, as the result of the negotiations and because of the passage of time, become obsolete. Many notifications had become outdated either through the lapse of time since their insertion into the Inventories some 10-12 years earlier or through the elimination of the underlying measures resulting from bilateral or plurilateral negotiations. An even greater number of measures representing, in some cases, entire sections of the Inventories are now covered by the various NTM codes negotiated in the Tokyo Round; these measures have been or will be brought into line with the respective code provisions by the signatories.

In order to obtain a clear picture of the situation on NTM's in the post-Tokyo Round era, the Director-General proposed that the Inventories be fully updated, but maintain their basic structure. Contracting parties would be invited to confirm which of the notifications they had made earlier they wished to maintain. At the same time, they could amend existing notifications or submit new notifications for inclusion in the Inventories. Before a notification would be included in the Inventories, the contracting party maintaining the underlying measure would be asked for comments, and these would be included in the Inventories together with the notification. Notifications against nonmembers of the GATT that nonetheless participated in the MTN would be deleted from the Inventories. As in the past, the Inventories would be open-ended, that is, contracting parties would be free in the future to request the inclusion of new notifications or the amendment or deletion of existing notifications.

At the GATT Council meeting in March 1980, the Council agreed on the updating of the Inventories of Non-Tariff Measures, according to the procedures outlined by the Director-General, and requested the secretariat to begin the updating process.

Multilateral Agricultural Framework

In April 1979, the Trade Negotiations Committee, which was guiding the Tokyo round negotiations, recommended that the Contracting Parties increase active cooperation in the agricultural sector within an appropriate consultative framework. In November 1979, the Contracting Parties requested the Director-General to consult with interested delegations on this matter and to report to the next regular session of the Contracting Parties.

In November 1980, the Director-General reported that, after consultations with a large number of delegations, there appeared to be complete agreement on two points: first, that the GATT must respond constructively and adequately to the recommendation of the Trade Negotiations Committee, and second, that it must deal effectively with the substance of agricultural trade problems. The Director-General reported that the GATT is already heavily involved in matters of agricultural trade through several of the NTM agreements negotiated during the Tokyo Round, through the meat and dairy arrangements, and in some of its panel work. However, there is no general forum in the GATT for the discussion of agricultural trade. In such a forum, contracting parties could pursue and maintain agricultural trade policies consistent with the objectives and principles of the GATT, with a view toward preventing difficulties from turning into disputes. On the basis of his consultations, the

Director-General concluded that the CG-18 could provide a forum of this kind. He therefore proposed that the Contracting Parties request the CG-18 to provide adequate additional time in its future meetings to review matters affecting agricultural trade and to receive information on activities in the agricultural sector. The Contracting Parties approved the proposal.

Import restrictions for balance of payments reasons

GATT article XII permits a contracting party to restrict the quantity or value of imports in order to safeguard its external financial position and its balance of payments. These restrictions are to be relaxed as conditions improve and are to be eliminated when conditions no longer justify their institution or maintenance. Article XVIII, section B permits a developing country to control the general level of its imports by restricting the quantity or value of merchandise to be imported for the purpose of safeguarding its external financial position and insuring a level of reserves adequate for the implementation of its program of economic development. A contracting party applying new restrictions or raising the general level of its existing restrictions by a substantial intensification of the measures applied under article XII or article XVIII, section B is required to enter into consultations with the Contracting Parties.

To implement these provisions, the Contracting Parties in November 1960 established procedures under which the contracting party concerned is required to furnish detailed information promptly for circulation to other members. The Committee on Balance of Payments Restrictions then conducts the consultations with all contracting parties whose trade is likely to be affected by the restrictions. Procedures for the consultations were approved in April 1970, and in December 1972 simplified procedures were approved for regular consultations with developing countries. In November 1979, the Contracting Parties adopted a Declaration on Trade Measures Taken for Balance of Payments Purposes.

In 1980, the Committee on Balance of Payments Restrictions carried out full consultations with Greece, Israel, South Korea, the Philippines, Portugal, and Tunisia.

For each consultation, a basic assessment of the financial situation of the country concerned is first provided by the International Monetary Fund (IMF). The Committee's report then includes assessments of the balance of payments situation and financial difficulties of the country concerned, trade policy and changes in restrictive measures, the balance of payments outlook and prospects for liberalization (taking into account such factors as official foreign reserves, total external debt, and exchange rate policy), the system and method of restriction (such as licensing, quotas, surcharge, or the conversion from specific duties to ad valorem equivalents), alternative measures to restore equilibrium, and the effects of the restrictions.

For cases concerning developing countries where full consultations are judged to be unnecessary, there are simplified procedures permitting the consultations to be completed on the basis of a written statement by the consulting country, unless the Committee considers it desirable to have a further examination on the basis of the IMF report or other discussion. In 1980, Bangladesh, Egypt, Ghana, India, Indonesia, Pakistan, Peru, and Sri Lanka consulted under the simplified procedures scheme.

Article XIX--Emergency action on imports of particular products

Article XIX (the "escape clause") permits the suspension of tariff concessions or other obligations with respect to imports that, as a result of unforeseen circumstances and of obligations incurred under the GATT, are being imported in such increased quantities as to cause or threaten "serious injury to domestic producers . . . of like or competitive products." Since article XIX provides that a concession may be suspended, withdrawn, or modified only "to the extent and for such time as may be necessary to prevent or remedy" the injury resulting from the concession, the suspensions are legally of a temporary nature. Although many of the emergency actions taken under article XIX have never been rescinded, contracting parties, which believe that the emergency has passed, may demand that the concession be reinstated and may invoke the dispute-settlement procedures of the GATT if no action is taken.

During 1980, the United States notified the GATT that it was rescinding or had rescinded article XIX actions on the following products: ball bearings (terminated April 30, 1978); and specialty steel (terminated February 13, 1980).

In March 1980, the United States informed the GATT Council that on March 24, 1980 the President of the United States had decided to deny import relief to producers of leather wearing apparel and therefore would not take action under article XIX. This followed a notification by the United States dated February 12, 1980 reporting a proposed article XIX action on this item. 1/

During 1980, six emergency actions were notified under article XIX, as shown in the following tabulation:

1/ On January 24, 1980 the President had received a determination from the U.S. International Trade Commission that coats and jackets of leather were being imported into the United States in such increased quantities as to be a substantial cause of serious injury or threat thereof to the domestic industry producing articles like or directly competitive with the imported articles. Under Section 202 of the Trade Act of 1974, the President has 60 days following the receipt of a recommendation from the Commission for the provision of import relief to determine the method and amount of import relief he will provide or determine that the provision of such relief is not in the national economic interest of the United States.

Date	Notifying country	Product	Type of measure
Jan. 1, 1980	United States	Porcelain-on-steel cooking ware	Tariff increase
Feb. 19, 1980	EEC	Yarn of synthetic fibers	Quantitative restrictions
May 7, 1980	Spain	Cheeses	Partial suspension of imports
June 11, 1980	EEC	Mushrooms: cultivated mushrooms in brine	Subject to import document
		Preserved mushrooms	Suspension of import licenses
Sept. 15, 1980	Australia	Certain works trucks and stackers	Quantitative restrictions
Dec. 2, 1980	United States	Preserved mushrooms	Tariff increase

Conciliation and dispute settlement

The General Agreement is organized as a system of reciprocal rights and obligations to be maintained in balance. When a country fails to respect a tariff concession or other obligation, the General Agreement provides a means to achieve a "satisfactory adjustment of the matter" through the dispute settlement articles XXII and XXIII. These articles allow the affected parties to suspend reciprocal "concessions or other obligations . . . as they determine to be appropriate in the circumstances."

Article XXII provides that contracting parties shall afford adequate opportunity for other contracting parties to consult on any matter affecting the operation of the General Agreement. If this does not lead to a resolution of a dispute, the affected party may proceed under article XXIII:1 to "make written representations or proposals to the other contracting party or parties which it considers to be concerned." Thereupon, "any contracting party thus approached shall give sympathetic consideration to the representations or proposals made to it." If the bilateral discussions fail to produce a settlement within a "reasonable" time, the matter is referred to the Contracting Parties under article XXIII:2. At this point, the procedure increasingly used is to refer the dispute to a panel on complaints, usually composed of three (sometimes five) individuals selected from contracting parties not involved in the dispute. The panel members are expected to act as disinterested mediators and not as representatives of their governments. The panels usually meet several times and issue a report containing draft recommendations to be formally issued under the aegis of the Contracting Parties. Normally, these recommendations call for disputing parties to settle their differences by some means short of withdrawal of concessions, the GATT's ultimate sanction.

In 1980, a record 13 international trade disputes (of which 10 involved agricultural products) were brought before the GATT Council under the article XXII and XXIII procedures. This number of trade disputes reflected not only the severe economic difficulties faced by many countries during 1980, but also the increased willingness of countries to make use of GATT procedures in settling their trade disputes.

EEC restrictions on imports of apples from Chile.--At the beginning of 1979, the EC Commission undertook consultations with southern hemisphere supplying countries (Argentina, Australia, Chile, New Zealand, and South Africa) in order to achieve voluntary restrictions of their apple shipments to the Community. Negotiations for similar arrangements had been carried out with these countries in 1976. Agreements were reached between the EEC and Argentina, Australia, New Zealand, and South Africa, but negotiations broke down in March 1979 between the EEC and Chile. The EEC had asked Chile to limit its apple exports to the EEC to 42,000 tons during the market year then in progress. Since Chile had already contracted for the sale of 60,500 tons of apples to the EEC, one-third of which had already been shipped, the Government of Chile proposed that the EEC restrictions be applied only to later shipments. The EEC rejected this proposal and, on May 5, 1979, suspended its imports of apples from Chile. 1/ The prohibition was lifted on August 15, 1979.

The Government of Chile contended that this safeguard measure by the EEC contravened the provisions of the General Agreement because (a) it was applied retroactively; (b) it was discriminatory, applying only to apples of Chilean origin; (c) the EEC had bound its customs tariff within GATT on the apples concerned; and (d) it was contrary to commitments contained in Part IV of the General Agreement relating to the special trade needs of developing countries. After intensive bilateral consultations did not lead to a solution, Chile requested that the GATT Council, at its meeting of July 25, 1979, establish a panel under article XXIII:2 to examine the compatibility of the EEC measure with GATT provisions. The Council agreed to establish the panel. The Council considered the report of the panel at its meeting of November 10, 1980. The report of the panel found that the EEC's suspension of apple imports from Chile was not a restriction similar to the voluntary restraint agreements negotiated with the other southern hemisphere suppliers because (a) there was a difference in transparency between the two types of action; (b) there was a difference in the administration of the restrictions--in the Chilean case it was an import restriction, while in the case of other southern hemisphere suppliers, it was an export restraint; and (c) import suspension was unilateral and mandatory while the export restraint was voluntary and negotiated. The panel also determined that there had been no public notice given of the quantity or value of permitted imports under the voluntary restraint agreements; and that Chile should have received

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1/ Although Chile considered that the EEC had taken a safeguard action that should have been notified under article XIX, the EEC said that the import restraints were not a "hidden article XIX safeguard action." The EEC said the wording of the notification borrowed from the language in article XI, which permits restraints on agricultural imports necessary to the enforcement of governmental measures that operate (1) to restrict the quantities of the like domestic product to be marketed or (2) to remove a temporary surplus of the like domestic product.

a greater quota share than 42,000 tons, because of its greater export capacity and its signed commercial contracts with EEC importers. Consequently, the panel found that the EEC measure was not in conformity with provisions of article XIII of the General Agreement concerning nondiscriminatory administration of quantitative restrictions. Because the EEC action was not in accordance with the provisions of article XIII, the panel concluded that there was a prima facie case of nullification or impairment of benefits accruing to Chile within the meaning of article XXIII. The panel considered that Chile's economic interests had been adversely affected and recommended that the two parties should consult bilaterally with a view to arriving at a mutually satisfactory solution. The EEC agreed to enter into bilateral consultations with Chile. The Council adopted the panel's report.

EEC restrictions on imports of poultry from the United States.--On May 1, 1980, the United Kingdom implemented legislation prohibiting imports of U.S. poultry not chilled by air or by immersion in a counter-flow of water. This process was specified in a British regulation implementing corresponding EEC directives. However, poultry produced in the United Kingdom would not have to comply with the new regulation, because processing plants in the United Kingdom received a derogation from the regulation until August 15, 1982. As a result of the United Kingdom action, U.S. poultry exports to the United Kingdom decreased sharply after May 1, 1980.

The United States held article XXIII:1 consultations with the United Kingdom and the EEC. The United States contended that its GATT benefits were being nullified and impaired as a result of the discriminatory action by the United Kingdom. In particular, the United States considered the U.K. action to be a violation of GATT article III which prohibits internal taxes and regulations that discriminate against imports. 1/ The EEC said (1) that the U.K. plants in question had only been granted temporary derogations in order to allow them to adjust to the processes required by the Community regulations;(2) that there was no significant impediment to the volume of U.S. exports, since the exporting firms were sufficiently dynamic to be able to adjust rapidly to the requirements of the EEC directives, as indeed almost all EEC poultry-producing plants had already done; (3) that the authorities of exporting third countries had long ago been advised of the need to comply with the EEC directive; (4) that certain U.S. exporting firms had converted their chilling processes without any delay or difficulty while other were still making the necessary adjustments; and (5) that the number of U.K. plants benefiting from the derogation was declining steadily. The EEC also pointed out that other provisions in the General Agreement besides article III were also relevant to the case, in particular article XX which provides for measures to protect the life or health of humans, animals, and plants.

At its meeting in October 1980, the GATT Council agreed to establish a panel, pursuant to article XXIII:2, to examine the U.S. complaint.

1/ The United States first raised this issue in the Committee on Technical Barriers to Trade (the Standards Committee) but decided not to pursue the matter under the Standards Agreement when it appeared that expeditious relief in that forum would be unlikely. For further details see the section on activities under the Agreement on Technical Barriers to Trade.

<u>Australian complaint on EEC sugar export subsidies</u>.--In 1978, Australia complained to the GATT Council that the EEC, by subsidizing its sugar exports through a system of refunds, had gained more than a fair share of the world sugar market, and had thereby contravened its obligations under GATT article XVI covering the use of export subsidies. A panel on the matter was established; it presented its report in November 1979. The report concluded (a) that the export refunds of the EEC were a subsidy; (b) that the EEC had significantly increased its exports of heavily subsidized sugar; (c) that the EEC system of sugar exports had depressed prices, had a destabilizing influence on world markets, and thereby had caused serious prejudice to all sugar exporters, including Australia; and (d) that the EEC sugar export system contained no element to prevent it from obtaining more than an equitable share of world export trade in sugar. However, the panel was unable to reach a conclusion on the question of whether the subsidies had resulted in the EEC "having more than an equitable share of world export trade" in sugar.

The issue was examined at several GATT Council meetings in 1980. Australia pointed out that, since the panel had found the EEC to be in breach of article XVI:1, the Contracting Parties were entitled to ask the EEC what action it intended to take and in what time frame it would remove the prejudice and threat of prejudice to Australia and other sugar exporting countries. The representative of the EEC stated that there was no evidence to show that the EEC sugar policy had caused harm to the world sugar market, and that the panel had been unable to quantify the damage to Australia caused by the EEC sugar policy. The EEC was willing to engage in discussions and consultations, but only on the basis of precise, quantifiable data. Moreover, the EEC wondered whether it was appropriate to question the EEC policy at a time when world sugar prices were increasing. The representative of Australia rejected the argument that the EEC sugar policy could not be called into question when sugar prices were rising, and noted his Government's concern that when the price of sugar fell, the EEC system would still be in operation.

In November 1980, the Contracting Parties requested the EEC to discuss with them the possibility of limiting the subsidization. The Director-General of GATT was invited to organize the discussions in a working party and to submit a report to the Council within 3 months. The EEC agreed to this request and the discussions began in December 1980 in a working party which is also discussing Brazil's complaint on EEC sugar export subsidies (described below).

<u>Brazilian complaint on EEC sugar export subsidies</u>.--In November 1978, the GATT Council set up a panel to examine a complaint by Brazil that the sharp increase in EEC sugar exports had been made possible through the use of substantial subsidies which, in recent years, consistently exceeded the international price of sugar. The subsidies thus granted had allowed the EEC to obtain a more-than-equitable share of the world sugar trade, and, through market displacement, had reduced sales opportunities and diminished export earnings for Brazil and all other contracting parties that exported sugar. The EEC had thereby caused serious prejudice to the interests of such contracting parties and hampered efforts being made to stabilize the world market by means of the International Sugar Agreement, 1977 (ISA).

The panel presented its report at the GATT Council meeting in November 1980. The panel concluded that the EEC system for granting refunds on sugar exports must be considered to be a form of subsidy and thus subject to the provisions of article XVI. The panel noted that Brazil and the EEC agreed with this interpretation. The panel stated that Brazilian sugar exports had been extremely low in 1976, but attributed this to factors other than competition from EEC sugar. Furthermore, the panel noted, Brazilian exports in 1977 had approximately corresponded to the quantities available for export. Therefore, the panel concluded, although the EEC share of world export trade in sugar had increased somewhat in 1976 and 1977, this increase was not considered to be unusual and did not explain the reduced market share of Brazil in these years. For the years 1978 and 1979, the panel found that the EEC share of world export trade in sugar was significantly higher than in previous representative periods. In contrast, Brazil's market share was smaller than the averages for previous representative periods, and comparable to its share in 1977. Further expansion of Brazilian exports in 1978 and 1979 was limited by Brazil's commitments under the ISA, but Brazil had filled and even exceed slightly its reduced ISA export quotas in both years. The panel found that there was no clear and general evidence that EEC exports had directly displaced Brazilian exports. In only a few markets of minor importance was there simultaneously a decline in Brazilian sales and an increase in imports from the EEC.

The panel found, in light of all the circumstances related to the complaint, and especially taking into account the difficulties in establishing clearly the causal relationships between the increase in EEC exports, the developments of Brazilian sugar exports, and other developments in the world sugar market, that it was unable to conclude that the increased share had resulted in the EEC "having more than an equitable share of world export trade in the product," in terms of article XVI. However, in view of the quantity of EEC sugar made available for export with maximum refunds and the unlimited funds available to finance export refunds, the panel concluded that the EEC system of granting export refunds on sugar had been applied in a manner which, in the particular market situation prevailing in 1978 and 1979, contributed to depressed sugar prices in the world market. It also found that this constituted a serious prejudice to Brazilian interests, in terms of article XVI.

The panel found that the EEC system of export refunds for sugar did not include any pre-established effective limitations on either production, price, or the amounts of export refunds. Moreover, the EEC system had not been applied in a manner that would effectively limit either exportable surpluses or the amount of refunds granted. Neither the system nor its application would prevent the EEC from having more than an equitable share of world export trade in sugar. The panel concluded that the EEC system and its application constituted a permanent source of uncertainty in world sugar markets and therefore constituted a threat of serious prejudice in terms of article XVI.

The Council adopted the report and invited the EEC to discuss the possibility of limiting its subsidies on sugar exports. The EEC agreed to the request. In December 1980, the working group (described above in the EEC/Australia case) began discussions on both the EEC/Brazil case and the EEC/Australia case.

EEC tariff quota on imports of beef from Canada.--At the GATT Council meeting in March 1980, Canada referred to the EEC's tariff quota on high quality grain-fed beef, which had been established as part of the Tokyo Round agreements. The relevant paragraph of the EEC Regulation establishing the quota provided for the import of 10,000 tons of grain-fed beef and outlined product specifications with the notation "beef graded USDA choice or prime automatically meets the definition above." An annex to the Regulation indicated that the U.S. Department of Agriculture (USDA) was the only authority empowered to issue the required certificates of authenticity.

Canada said it had shown that it could certify that its beef exports met the exact specifications required for access to the EEC, but the EEC had not amended its regulations to allow for the entry of beef from Canada. Canada, therefore, had been excluded from the quota concession. Canada considered that the EEC's levy-free tariff rate quota for high quality grain-fed beef discriminated against Canada and, therefore, was not consistent with articles I and II of the General Agreement. Canada further claimed that this constituted a prima facie nullification of the benefits that should have accrued to Canada from the EEC concession.

The representative from the EEC explained that the negotiations on the matter had not been completed and that the EEC intended to continue them.

In June 1980, Canada told the GATT Council that the dispute had not yet been settled and requested that the Council establish a panel to examine the matter. The Council agreed to establish a panel.

Spanish tariff treatment of unroasted coffee.--At the GATT Council meeting in January 1980, Spain informed the Council that in July 1979 it had introduced certain modifications in the tariff treatment applied to imports of unroasted coffee. Under Spanish law, imports of unroasted, nondecaffeinated, unwashed arabica and robusta coffees are subject to a tariff treatment less favorable that that accorded to other coffees. Prior to the enactment of this law, there had been no differentiation in Spain's tariff treatment of unroasted coffee imports. As the principal supplier of coffee to Spain, Brazil was concerned about the discriminatory character of the new tariff rates and requested consultations with Spain under article XXII:1.

At the GATT Council meeting in March 1980, the representative of Brazil informed the Council of Brazil's request to hold article XXIII:1 consultations on this matter. In June 1980, the Council was informed that, since a satisfactory agreement had not been reached, Brazil was invoking the procedures of article XXIII:2 for examination of the dispute by a panel. The Council agreed to establish a panel to investigate the matter.

Spanish measures concerning domestic sale of soybean oil.--Following unsuccessful bilateral consultations under article XXIII:1 during October 1979, the United States presented a complaint against Spain's domestic consumption quota on soybean oil at the GATT Council meeting of November 16, 1979. The Spanish Government maintains internal quantitative restrictions and price controls on the sale of soybean oil processed from imported soybeans. The United States has charged that these restrictions act as nontariff barriers to the importation of soybeans, are inconsistent with

Spain's obligations under the GATT, and have denied to the United States certain benefits that should accrue from the Spanish tariff concession on soybeans. The United States requested the complete elimination of the Spanish domestic marketing restrictions on soybean oil by January 1, 1983, or on the entry into force of Spain's accession agreement to the European Communities (EC), whichever occurs first. 1/

The United States asked for the establishment of a panel under article XXIII:2. At its meeting of January 29, 1980, the GATT Council agreed to establish a panel. The panel's report was completed and presented to the two parties, but it was not published during 1980.

Norwegian restrictions on imports of certain textile products from Hong Kong.--In June 1980, the GATT Council considered a report from a panel set up the previous year to examine a complaint by the United Kingdom, on behalf of Hong Kong, concerning Norwegian restrictions on imports of certain textile products. The dispute concerned Norway's invocation in 1978 of GATT article XIX to set global import quotas for various textile products. Hong Kong argued that the unilateral and discriminatory quantitative restrictions which Norway had imposed on Hong Kong in 1978 had resulted in considerable economic damage to Hong Kong. Hong Kong believed it was entitled to compensation for the damage caused to its export trade by the Norwegian restrictions. Norway rejected this request. Hong Kong also requested that Norway should either immediately terminate its action under article XIX, or make it consistent with the provisions of article XIII (concerning nondiscriminatory use of quotas). In July 1979, when consultations between the two countries had not achieved a solution, the United Kingdom on behalf of Hong Kong, requested the Contracting Parties to investigate (under article XXIII:2) whether Hong Kong's rights under the GATT had been nullified or impaired. The Council agreed to establish a panel. 2/

The panel's report concluded that Norway, according to the provisions of article XIII, should have allocated Hong Kong, as a substantial supplier, a specific share of Norwegian textile imports. Since Norway had failed to allocate such a share to Hong Kong, its article XIX action was not consistent with article XIII. The panel had therefore found that Norway should either terminate the article XIX action in its present form, or should make its action consistent with the provisions of article XIII.

Norway said that no country had questioned its right to take article XIX action in this case, and that it was entitled to maintain its action as long as the underlying causes for doing so continued to exist. The Norwegian representative further stated that the global quota system would be terminated as soon as an acceptable bilateral agreement, based on the provisions of the Multifiber Arrangement (MFA), had been concluded with Hong Kong. He pointed out that article XIII sets out two alternative ways of allocating quotas among supplying countries. The first alternative, which required agreement with all supplying countries, was excluded since Hong Kong insisted on the same export opportunities as under an agreement based on the MFA. The second alternative, which allotted a share based on imports during a previous representative period, would have meant that Hong Kong should probably be allotted a share

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1/ For more information on the background of this dispute, see the 31st report on the Operation of the Trade Agreements Program, p. 73.

2/ For more information on the background of this dispute, see the 31st report on the Operation of the Trade Agreements Program, [illegible] calculated on a base period when imports from Hong Kong had reached their peak. Since the point of the article XIX action was to keep imports from Hong Kong below their peak level, Norway said the country-share solution was not practical.

After much discussion, the Council adopted the panel's report in principle. The Council made a strong appeal to the two parties to increase their efforts to reach a mutually acceptable agreement, and recommended to the Norwegian Government that it make its article XIX action consistent with article XIII as soon as possible.

In November 1980, Norway told the annual session of GATT's member states that it had decided to extend its article XIX restrictions on textile imports for one year, until the end of 1981. On behalf of Hong Kong, the United Kingdom reserved its rights under article XIX 1/ concerning the effects of the Norwegian action during 1981 on Hong Kong's textile exports.

U.S. prohibition of imports of tuna and tuna products from Canada.--On August 31, 1979, the U.S. Government imposed an embargo on imports of tuna and tuna products from Canada. This action was taken pursuant to section 205 of the Fishery Conservation and Management Act. Under the law, imposition of an import prohibition is mandated if the Secretary of State determines that a U.S. fishing vessel has been seized in a jurisdiction claimed by another country, but which claim the United States does not recognize. This particular U.S. prohibition was taken in response to Canada's seizure in August and September 1979 of 19 U.S. flag vessels which were fishing for albacore tuna, a highly migratory species of tuna, off the coast of British Columbia. It is the position of the United States that fishing rights for highly migratory species of tuna should be under international management.

In January 1980, Canada told the GATT Council that bilateral consultations on this matter had failed to produce a satisfactory solution. Since Canada considered the U.S. action against Canada to be contrary to the obligations of the United States under the GATT and to have impaired its GATT benefits, it requested the establishment of a panel under article XXIII:2 to examine the compatibility of the U.S. restriction with the General Agreement. The Council agreed to set up the panel.

Canada was particularly concerned that the United States had imposed the embargo for reasons that had nothing to do with trade. However, Canada rejected both the U.S. position that the issue should be resolved in the context of the fisheries agreement and the U.S. offer of compensation. The only appropriate solution to the problem, Canada argued, would be removal of the measure.

In August 1980, following an interim agreement on fisheries with Canada, the United States informed GATT that it was lifting the prohibition on imports of tuna products from Canada. Nevertheless, Canada considered that the risk remained that the prohibition could be reimposed, and therefore requested that

1/ Under article XIX, the United Kingdom, on behalf of Hong Kong, could reestablish the balance of concessions either by demanding compensation from Norway in the form of other concessions or by suspending substantially equivalent concessions on imports from Norway.

the panel should reach a substantive conclusion of the case. The United States informed GATT that it would continue to cooperate with the panel, which continued its work.

Indian complaint about U.S. imposition of countervailing duty on industrial fasteners from India.--In September 1980, India requested consultations with the United States under article XXIII:1 of the General Agreement concerning U.S. imposition of a countervailing duty, without applying an injury test, on imports of industrial fasterners from India. India complained that on July 21, 1980, the U.S. Department of Commerce imposed a countervailing duty of 18 percent on certain industrial fasteners imported from India without referring the matter to the U.S. International Trade Commission for a finding on the question of material injury to the domestic industry. The Government of India considered that the denial to India of the injury criterion in respect of dutiable products, while this benefit was extended to other contracting parties of the GATT, had contravened the most-favored-nation obligation of the United States toward India under article I of the General Agreement.

Consultations between the United States and India took place on October 21 but did not result in agreement. Consequently, at the GATT Council meeting of November 10, India requested that a panel be set up under article XXIII:2. The United States agreed to setting up a panel, but only to deal with problems related to the General Agreement, since the United States had already agreed to a special meeting in December 1980 of the Committee on Subsidies and Countervailing Measures to discuss issues raised by India in the context of the Agreement on Interpretation and Application of article VI, XVI, and XXIII of the General Agreement (the Subsidies Code). 1/ The Council agreed to set up a panel and authorized the Council Chairman to decide on its composition and appropriate terms of reference in consultations with the parties concerned.

Japanese restraints on leather imports.--On September 20, 1979, Canada began consultations with Japan, under article XXIII:1, regarding Japanese restrictions on imports of leather. When these consultations failed to reach a solution by November 1979, Canada asked the GATT Council to establish a panel to examine whether the restrictions were compatible with Japan's obligations under the General Agreement. The panel met six times. On June 30, 1980, the panel was informed that Canada and Japan had reached an agreement in principle. In a joint communication dated October 6, 1980, the parties advised that they had successfully concluded their bilateral consultations and had signed a Record of Discussions on September 22, 1980 containing a solution to the dispute and a statement that Canada would be withdrawing the complaint filed under article XXIII:2.

Japanese restraints on imports of manufactured tobacco.--At the GATT Council meeting of November 16, 1979, the United States presented a complaint against Japanese import restrictions on manufactured tobacco products,

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1/ India acceded to the Subsidies Agreement in July 1980, but the United States invoked the nonapplication provision of the agreement to India. For further details see the section on activities under the Agreement on Subsidies and Countervailing Duties.

specifically cigars and pipe tobacco. 1/ The Council requested the two countries to pursue bilateral consultations under article XXIII:1. When the consultations did not lead to a mutually satisfactory solution, the Council set up a panel in February 1980 to examine the matter. However, on November 21, 1980, the United States and Japan successfully reached a resolution to the problem. 2/

Japanese measures on edible milk fats from New Zealand.--At the GATT Council meeting in October 1980, the representative from New Zealand referred to a reported proposal by the Government of Japan to impose quotas on prepared edible fats containing milk fats, by reclassifying this product under a different tariff heading than it had been under previously. Noting that the unilateral reclassification in the customs tariff by any contracting party was an important issue, the New Zealand representative said that the proposed action would be inconsistent with Japan's GATT obligations and that New Zealand would seek consultations under the appropriate article of the General Agreement.

The representative from Japan said that he had been informed of New Zealand's intention to intervene in the matter only the day before the Council meeting, and that his delegation would respond in an appropriate manner at a later date.

Customs unions, free trade areas, and regional agreements

Article XXIV of the GATT recognizes the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries that are parties to such agreements. However, the article warns that the purpose of a customs union or free trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories. Consequently, any contracting party deciding to enter into a customs union or a free trade area must notify the Contracting Parties, which can make such reports and recommendations to contracting parties as they may deem appropriate.

Latin American Integration Association.--On August 12, 1980, representatives of 11 Latin American nations--Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela--signed an economic pact aimed at creating a regional, European-style common market. The Latin American Integration Association, know by its Spanish acronym ALADI, replaces the Latin American Free Trade Association (LAFTA) which was signed into being in February 1960. ALADI is designed to be a flexible economic pact that will take into account the different levels of economic development and natural trading zones among the 11 countries. It recognizes a three-tier classification of countries in the region. One bloc comprises the most highly industrialized countries in the region, including Argentina, Brazil, and Mexico. A second group consists of

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1/ For more information on the background of this dispute, see the 31st report on the Operation of the Trade Agreements Program, p. 74.

2/ For further information on this issue, see the Japan section in Chapter IV of this report.

fairly developed countries, including Venezuela, Colombia, and Chile, while a third bloc includes lesser developed countries such as Uruguay, Bolovia, and Paraguay.

Agreement between the EFTA countries and Spain.--On June 26, 1979, the countries of the European Free Trade Association (EFTA) (Austria, Finland, Iceland, Norway, Portugal, Sweden, and Switzerland) and Spain concluded a multilateral free trade agreement which entered into force on May 1, 1980. 1/ The agreement, which does not make Spain a member of EFTA, affirms the desire of EFTA countries for Spain "to participate progressively in European free trade, thereby strengthening economic relations between European countries." 2/ Under the agreement, the EFTA countries and Spain will progressively reduce and ultimately eliminate the obstacles to substantially all trade between them in products originating in EFTA countries or in Spain. The effect of the agreement is to achieve the same level of trade liberalization between EFTA countries and Spain as applies between Spain and the EEC by virtue of the preferential trade agreement concluded in 1970. The Spain/EFTA agreement covers trade in industrial products, certain fish and fishery products, and a number of processed agricultural goods. 3/ Agricultural products, which form a very small part of the trade of the EFTA countries and are not covered by their free trade agreements with the EEC, are subject to special provisions and the trade in them is to some extent liberalized under separate bilateral agreements between Austria, Finland, Norway, Portugal, Sweden, and Switzerland on the one side and Spain on the other.

Under the main agreement, EFTA countries, except for Portugal, reduced their import duties in one step on almost all industrial products by 60 percent, and on a few sensitive products by either 30 or 40 percent. These tariff reductions were to be applied from July 1, 1980. At the same time, Spain reduced its duties on some industrial products imported from EFTA countries by 60 percent and on most industrial products by 25 percent. Although the agreement contains a general prohibition against quantitative import restrictions, a few will be allowed for each side.

The special provisions governing trade between Portugal and Spain take account of the fact that Spain's industry is larger and more varied than Portugal's. During a first phase, lasting 4 years, Portugal will therefore in most cases reduce its tariffs less sharply than the reductions granted to Spain by other EFTA countries. Also, Spain will give Portugal greater tariff

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1/ The agreement will apply also to Liechtenstein as long as the present customs union between Liechtenstein and Switzerland remains in force.

2/ The reference here is to the free trade system for industrial goods which at present, through bilateral free trade agreements, links the seven EFTA countries (themselves forming a single free trade area) with the EEC (where tariffs have been removed within a customs union).

3/ Among others, items not covered by the agreement include coal and steel products since Spain has no agreement with the European Coal and Steel Community.

reductions than those granted to other EFTA countries. A second phase is intended to lead to the elimination of all obstacles to trade and to end discrimination in trade between Portugal and Spain.

In January 1980, the GATT Council established a working party to examine the Spain/EFTA agreement. The working party presented its report to the GATT Council in November 1980. The report covered such matters as trade coverage, bilateral agreements on agriculture, quantitative restrictions, licensing, rules of origin, and questions related to safeguards. However, the working party was unable to reach unanimous conclusions whether the agreement was in conformity with the relevant provisions of the General Agreement. The working party noted that the parties to the agreement will submit biennial reports in accordance with normal GATT practice.

EEC agreement with Yugoslavia.--On May 6, 1980, the EEC and Yugoslavia signed an interim agreement on trade and cooperation. The purpose of the agreement is to increase cooperation between the two parties in order to contribute to economic and social development and to reinforce the mutual links between them. The GATT Council must consider the matter, but did not do so during 1980.

Article XXVIII--Modification of Schedules

Article XXVIII sets out the procedures under which a country may modify or withdraw concessions included in its GATT schedule. In such negotiations, the contracting party modifying or withdrawing the concession may offer compensatory adjustment on other products to maintain a general level of reciprocal and mutually advantageous concessions not less favorable to trade than that provided prior to the negotiations. If compensatory adjustments are not made, a contracting party considered to have a principal supplying interest is free to withdraw substantially equivalent concessions already negotiated with the contracting party making the article XXVIII modifications.

In 1980, the United States conducted negotiations under article XXVIII with Indonesia, Switzerland, Sweden, India, and South Africa on modifications of the schedules of those countries and concluded an agreement with the European Community on the modification of provisions for wool-blend fabrics in the U.S. schedule.

Activities Under the GATT Agreements on Nontariff Measures and the Agreement on Trade in Civil Aircraft

January 1, 1980, witnessed the entry into force of 7 of the 9 multilateral agreements on nontariff measures negotiated in the MTN. These were the Agreements on Antidumping, Subsidies and Countervailing Duties, Technical Barriers to Trade (Standards), Import Licensing Procedures, Trade in Civil Aircraft, and the Arrangements Regarding Dairy Products and Bovine Meat. In addition, on July 1, 1980, the United States and the European Community carried out their commitment to implement the Customs Valuation Agreement six months in advance of the January 1, 1981, date stipulated in that Agreement for entry into force.

All of the multilateral nontariff measure agreements establish a committee or council composed of representatives of each signatory to administer the agreements. The committees and councils of the seven agreements that entered into force internationally on January 1, 1980, were convened for organizational meetings in January or February and to begin the activities which would be necessary for successful implementation and operation of the agreements. Many of the issues dealt with in the first half of the year were common to all of the agreements and largely procedural. These included the selection of a chairman and vice-chairman, establishing a procedure for the distribution and handling of documents, agreeing upon a procedure for conducting the business of the agreements, establishing a program under which national legislation and regulations relevant to operation of the agreements would be submitted to the committees or councils and systematically examined by them, establishing a program for reporting to the committees or councils statistics or other information on national activities relevant to the agreements, and agreeing upon dispute settlement procedures, accession procedures for new signatories, and the participation of observers.

Perhaps the most difficult and problematical of these turned out to be the decision on participation of observers in meetings of the committees and councils and the procedures for accession of new signatories. Before the very first formal meetings of the committees and councils a contentious and potentially explosive situation developed over the extent to which nonsignatories to the agreements should be allowed to participate in the activities and decisions of the code groups. It was the view of some countries, generally nonsignatories to the MTN agreements, that the GATT Contracting Parties, not the signatory committees or councils, should have ultimate control over the activities under the agreements. This delicate matter was ultimately settled by the signatories asserting firm control in a decision which would permit nonsignatory observers to participate in discussions of the groups and to receive documents, but not to vote in the making of decisions. The signatories decided that requests by international organizations for observer status would be handled on a case-by-case, meeting-by-meeting basis. Special attention was given to requests for observer status from countries which were not contracting parties to the GATT. The general sentiment was that observer status should be granted if an interest in possible accession to the agreement had been expressed. The granting of observer status to Mexico was delayed for several weeks while signatories sought clarification of Mexico's interest in having observer status, in the light of Mexico's rejection in March of 1980 of GATT membership and the announcement that for the forseeable future Mexico could perceive no benefit to Mexico in accession to the GATT or adherence to any of the MTN nontariff measure agreements. After the observer status issue was eventually settled, there were more countries holding observer status for the meetings of all the committees and councils than there were signatories to the agreements. In addition, the International Monetary Fund and the UNCTAD attended meetings of all groups as observers, and other international organizations were granted observer status for some of the committees, but especially the Committee on Technical Barriers to Trade.

All of the agreements specify that after they enter into force, they shall be open for acceptance by new signatories, but they differentiate in the conditions for acceptance by countries which are contracting parties to the

GATT, countries which have provisionally acceded to the GATT, and countries which are not GATT contracting parties. This is because GATT contracting parties have already undertaken obligations which are complementary to those of the codes, and countries which have provisionally acceded to the GATT have undertaken certain obligations set out in their protocols of provisional accession, whereas countries not GATT contracting parties have undertaken none of these obligations. Consequently, all of the committees and councils had to consider the terms or conditions under which noncontracting parties to the GATT would be accepted as signatories to the agreements. Most of the groups accepted procedures proposed by the GATT Secretariat under which the substance of the terms of accession would actually be determined on a case-by-case basis. At least one of the groups ended the year, however, without an agreement on this issue.

A general development common to most of the committees and councils was the practice of holding informal meetings of signatories in preparation for the formal meetings. This was found to greatly facilitate the conduct of business in the formal meetings.

A second activity worthy of mention was the continuing campaign throughout the year, but particularly on the part of the United States, for new signatories to the agreements.

Signatories to the nine agreements at the end of the year are shown in table 3. It should be noted that under terms of several bilateral agreements the United States applies the conditions of the agreements to certain nonsignatories, 1/ and in the case of the Subsidies Agreement, the United States has invoked the nonapplication clause with respect to India.

The other activities particular to each of the agreements are discussed in the following pages.

Agreement on Antidumping.--The new revised Antidumping Agreement, formally titled the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade, entered into force on January 1, 1980, with 11 signatories, including the European Community. Six additional countries (Czechoslovakia, Hungary, India, Romania, and Spain) signed the Agreement during 1980.Some of the signatories were still in the process of ratifying the agreement when the year ended. Five signatories of the original Antidumping Agreement--Australia, Greece, Malta, Poland, and Portugal--had not yet signed the new agreement when the year closed, although Greece would come under the new agreement with that country's accession to the European Community on January 1, 1981.

The original Antidumping Agreement, which was negotiated at the Kennedy Round and entered into force on July 1, 1968, was an effort to interpret the GATT Article VI provisions on antidumping duties and to achieve uniformity in the practice of signatory governments in applying antidumping procedures. The agreement was renegotiated during the Tokyo Round principally to bring certain provisions, especially those concerning determination of injury, price

1/ El Salvador, Honduras, Liberia, Nepal, North Yemen, Paraguay, Taiwan, and Venezuela.

Table 3.--Signatories to the GATT Agreements on Nontariff Measures and the Agreement on Trade in Civil Aircraft, as of December 31, 1980

Country	Agreement								
	Antidumping	Subsidies/ Countervail	Technical Barriers (Standards)	Licensing	Aircraft	Meat	Dairy	Customs Valuation	Government Procurement
Argentina			X	X		X	X	X	
Australia				X		X	X		
Austria	X	X	X	X	X	X	X	X	X
Brazil	X	X	X			X			
Bulgaria						X	X		
Canada	X	X	X	X	X	X		X	X
Chile		X	X	X					
Czechoslovakia	X			X					
European Economic Community 1/	X	X	X	X	X	X	X	X	X
Belgium			X		X				
Denmark			X		X				
France			X		X				
West Germany			X		X				
Ireland			X		X				
Italy			X		X				
Luxembourg			X		X				
Netherlands			X		X				
United Kingdom	X 2/	X 2/	X 3/	X 2/	X	X 4/		X 2/	X 2/
Finland	X	X	X	X		X	X	X	X
Hungary	X		X	X		X	X	X	
India	X	X		X				X	
Japan	X	X	X	X	X	X	X	X	X
Republic of Korea		X	X					X	
New Zealand			X	X		X	X		
Norway	X	X	X	X	X	X	X	X	X
Pakistan		X							
Romania	X		X	X	X	X	X	X	
Singapore			X						X
South Africa				X		X	X		
Spain	X		X					X	
Sweden	X	X	X	X	X	X	X	X	X
Switzerland	X	X	X	X	X	X	X	X	X
Tunisia						X			
United States	X	X	X	X	X	X	X	X	X
Uruguay		X				X	X		
Yugoslavia		X	X	X		X		X	

1/ The European Economic Community is a signatory to all of the agreements. Inasmuch as the Agreements on Technical Barriers to Trade and on Trade in Civil Aircraft cover matters outside the purview of the Community, each of the EC member states are also signatories to these Agreements.
2/ The United Kingdom signed the agreement for certain of the territories for which it has international responsibility, particularly Hong Kong.
3/ The United Kingdom signed the Standards Agreement in respect of its metropolitan territory and also for certain of the territories for which it has international responsibility, particularly Hong Kong.
4/ The United Kingdom signed the Meat Agreement for Belize.

undertakings between exporters and the importing country, and the imposition and collection of antidumping duties, into line with similar provisions in the newly negotiated MTN Agreement on Subsidies and Countervailing Duties.

The Committee on Antidumping Practices, composed of representatives from each of the Parties, administers the agreement. Chaired by a Swedish Government official during its first year, the Committee held three formal meetings.

Article 13 of the agreement recognizes that special regard must be given by developed countries when considering the application of antidumping measures under the agreement. Brazil had accepted the agreement in December 1979 on the condition that there be some recognition of Brazil's need for special consideration in implementing the agreement. In order to facilitate generally the participation of developing countries, the Committee, at its May 1980 meeting, adopted decisions concerning the application and interpretation of the agreement in relation to developing countries.

The decisions recognize that the agreement is not intended to prevent developing countries from adopting measures to promote their economic growth and development, which may result in different cost and price structure for domestic and export sales, and that this should be taken into account in determining the normal value. They also recognize that developing countries may face special problems in adapting their legislation to the requirements of the agreement and therefore time-limited exceptions may be granted, where appropriate, by the Committee. Pursuant to these decisions, the Committee subsequently approved a Brazilian request to allow Brazil 3 years to set up its domestic antidumping procedures so long as Brazil does not in the meantime impose antidumping duties. When India signed the agreement in July 1980, that country also referred to the need for special consideration to be given to developing countries, and subsequently, in view of the May Decision, fully accepted the agreement.

In the agreement, the provisions on determining injury and the definition of the domestic industry states that when producers are related to the exporters or importers or are themselves importers of the allegedly dumped product, the domestic industry may be interpreted as referring to the rest of the producers, and the agreement calls for the development of an understanding among Parties defining the word "related." A similar provision is found in the Subsidies and Countervailing Duties Agreement. The Committees of the two agreements established a joing group of experts to identify and examine, at a technical level, problems involved in the definition of the word "related" for purposes of the two agreements. The experts group met in October to organize its work and would report its results to the Committee in 1981.

The Committee agreed that signatories should report semiannually antidumping actions taken during the preceding 6 months, and that there would be at least an annual review of these actions.

The final meeting of the year in October was devoted principally to an examination and discussion of signatories' implementing legislation during which proposed Canadian legislation received particular attention. The proposed Canadian legislation would provide broad administrative discretion to impose antidumping duties without an investigation through use of a basic price system. Largely as a result of examination of Canada's proposed provisions concerning establishment of a basic price system, the Committee

The Antidumping actions in 1980 reported to the Committee are listed in table 4. 1/ Eight signatories, Czechoslovakia, Finland, Hungary, Japan, Norway, Spain, Sweden, and Switzerland, reported that no antidumping cases were pending or initiated in 1980.

The dispute settlement procedures of the agreement were not invoked in 1980.

Agreement on Subsidies and Countervailing Duties.--The Subsidies and Countervailing Duties Agreement, formally titled the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade, entered into force on January 1, 1980, with 13 signatories, including the European Community. Four additional countries (India, Korea, Pakistan, and Yugoslavia) signed the Agreement in 1980. Some signatories were still in the process of ratifying the Agreement at the end of the year.

The Subsidies Agreement clarifies existing GATT provisions dealing with subsidies, countervailing duties and procedures within the GATT for dealing with trade distortions or other problems which may occur in this area. Through the establishment of agreed rights and obligations covering subsidies and countervailing duties and an international surveillance and dispute settlement mechanism, the Agreement seeks to ensure that a signatory's subsidies do not harm the trading interest of another, and that countervailing measures to not unjustifiably impede trade.

The Committee on Subsidies and Countervailing Duties, established by the Agreement and comprised of representatives from each signatory, held 5 formal and several informal meetings in 1980. The Committee was chaired by a Brazilian government official during this first year of its operation.

An important early item of business for the Committee was the procedure for handling commitments by developing countries under Article 14:5 of the Agreement. Article 9 of the Agreement specifies that signatories shall not grant export subsidies on products other than certain primary products. In Article 14, however, signatories recognize that subsidies are an integral part of economic development programs of developing countries and that the Article 9 commitment does not apply to developing countries, subject to certain provisions, one of which, stated in Article 14:5, is that a developing country signatory should endeavor to enter into a commitment to reduce or eliminate export subsidies when they are inconsistent with its competitive and development needs.

During the MTN negotiation of the Subsidies Code and continuing through 1980 the United States diligently pursued the negotiation of such commitments with developing countries interested in becoming signatories to the Agreement. It was the U.S. position throughout the negotiations that the United States would not apply the Agreement to developing country signatories which did not make such a commitment, and this position was strongly and formally reiterated to the Committee early in the year.

1/ The table does not detail reported U.S. actions on import relief. A full treatment of U.S. actions on import relief, unfair trade practices, and related matters will be found in Chapter V.

Table 4.--Antidumping actions reported by signatories to the GATT antidumping code, 1980

Reporting country	Action taken against:	Product	Initiation date	Provisional measures	Final outcome
Austria	Italy	Reinforcing wire mesh	11/15/79	12/1/79	3/1/80 - Definitive duty
Canada	Belgium	Calcium and zinc stearates	9/21/79	1/14/80	4/14/80 - Definitive duty
Canada	Belgium	Citric acid and sodium citrate	11/30/79	4/30/80	7/29/80 - No injury
Canada	Belgium	Hose wire	11/18/80		
Canada	Brazil	Custom wheel rims	9/25/80		
Canada	France	Steel sheet piling	7/4/80	10/27/80	
Canada	Italy	Ceramic tiles	8/7/79	2/22/80	5/22/80 - No injury
Canada	Italy	Scissors	1/21/80	7/18/80	10/10/80 - No injury
Canada	Italy	Hydroelectric generators	3/7/80		9/17/80 - Notice to Federal Court
Canada	Japan	Hydroelectric generators	3/6/79	11/26/79	2/29/80 - Definitive duty
Canada	Japan	Industrial fork lift trucks	4/2/79	10/12/79	1/10/80 - Definitive duty 1/
Canada	Japan	Power tools	7/4/79	12/20/79	3/18/80 - Definitive duty 1/
Canada	Luxembourg	Steel sheet piling	7/4/80	10/27/80	
Canada	Netherlands	Lauroyl peroxide	8/18/80	12/10/80	
Canada	Poland	Doorskings (Hardwood panels)	9/21/79	3/23/80	6/23/80 - Definitive duty 1/
Canada	Spain	Ceramic tiles	8/7/79		2/22/80 - No dumping
Canada	Spain	Hose wire	11/18/80		
Canada	United Kingdom	Industrial fork lift trucks	4/2/79	10/12/79	1/10/80 - No injury
Canada	United Kingdom	Citric acid and sodium citrate	11/30/79	4/30/80	7/29/80 - No injury
Canada	United Kingdom	Methyl ethyl ketone peroxides	12/7/79	4/2/80	6/30/80 - Definitive duty
Canada	United Kingdom	Lauroyl peroxide	8/18/80	12/10/80	
Canada	United Kingdom	Steel sheet piling	7/4/80	10/27/80	
Canada	United States	Industrial fork lift trucks	4/2/79	10/12/79	1/10/80 - Definitive duty 1/
Canada	United States	Airless paint spray units	6/11/79	2/15/80	5/15/80 - No injury
Canada	United States	Custom wheel rims	11/21/79	5/13/80	8/12/80 - Definitive duty 2/
Canada	United States	Citric acid and sodium citrate	11/30/79	4/30/80	7/29/80 - Definitive duty 2/
Canada	United States	Methyl ethyl ketone peroxides	7/12/79	4/2/80	6/30/80 - No injury
Canada	United States	Sporting ammunition	1/28/80	5/21/80	8/19/80 - Definitive duty
Canada	United States	Waterbed mattresses	3/3/80		5/14/80 - No dumping
Canada	United States	Electric fan motors	5/7/80		11/24/80 - Case withdrawn
Canada	United States	EDTA No. 4 liquid and DTPA liquid	6/4/80		
Canada	United States	Juvenile products	6/23/80	11/7/80	

Table 4.--Antidumping actions reported by signatories to the GATT antidumping code, 1980--continued

Reporting country	Action taken against:	Product	Initiation date	Provisional measures	Final outcome
Canada	United States	Multi-link telephone intercom system	11/13/80		
Canada	United States	Vehicle washing equipment	7/7/80	11/28/80	
Canada	United States	Benzoyl peroxide	8/18/80	12/10/80	
Canada	United States	T-butyl peroctoate	8/18/80	12/10/80	
Canada	United States	T-butyl parbenzoate	8/18/80	12/10/80	
Canada	West Germany	Citric acid and sodium citrate	11/30/79	4/30/80	
Canada	West Germany	Lauroyl peroxide	8/18/80	12/10/80	
Canada	West Germany	Steel sheet piling	7/4/80	10/27/80	
Canada	West Germany	Citric acid and sodium citrate	11/30/79	4/30/80	7/29/80 - No injury
Canada	United States United Kingdom West Germany Netherlands	EDTA No. 4 liquid and DTPA liquid	6/4/80 amended 11/5/80		
EC	Brazil	Stainless steel bars	12/18/79		5/28/80 - Price undertakings
EC	Brazil	Malleable cast iron tube fittings	9/26/80		
EC	Brazil	Hermetic compressors for refrigerating equipment	11/14/80		
EC	Canada	Potato granules	8/29/80		
EC	Finland	Fiber board for building	5/9/79		6/11/80 - Price undertakings
EC	Hong Kong	Mechanical alarm clocks	8/24/79		6/25/80 - No dumping
EC	Hungary	Filament lamps for lighting	9/5/78		4/15/80 - Price undertakings
EC	Hungary	Electric multiphase motors	4/25/79		2/27/80 - Price undertakings
EC	Hungary	Hermetic compressors for refrigerating equipment	11/14/80		
EC	Japan	Acrylic fiber	6/12/79		5/9/80 - Price undertakings
EC	Japan	Stereo cassette tape heads	8/17/79		3/15/80 - No dumping
EC	Japan	Quartz crystal units	8/29/79		6/27/80 - No dumping
EC	Japan	Saccharin and its salts	8/17/79		12/9/80 - No dumping
EC	Japan	Hermetic compressors for refrigerating equipment	11/14/80		
EC	Norway	Fiber board for building	5/9/79		6/11/80 - Price undertakings
EC	Romania	Tubes of iron or steel	1/24/79		9/20/80 - Price undertakings

Table 4.--Antidumping actions reported by signatories to the GATT antidumping code, 1980--continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
EC	Spain	Fibers board for building	5/9/79		6/11/80 - Price undertakings
EC	Spain	Welded studded link chain	12/4/79		9/21/80 - Price undertakings
EC	Spain	Furfural	8/27/80		
EC	Spain	Hermetic compressors for refrigerating equipment	11/14/80		
EC	Sweden	Fiber board for building	5/9/79		6/11/80 - Price undertakings
EC	Sweden	Welded studded link chain	12/4/79		9/2/80 - Price undertakings
EC	Sweden	Edible and pharmaceutical gelatine	8/27/80		11/27/80 - No dumping
EC	United States	Lithium hydroxide	5/19/79	10/31/79	1/30/80 - Definitive duty
EC	United States	Acrylic fiber	6/12/79	12/4/79	5/3/80 - Definitive duty
EC	United States	Quartz crystal units	8/29/79		6/27/80 - No dumping
EC	United States	Chemical fertilizer	2/26/80	8/15/80	
EC	United States	Polyester yarn	5/30/80	9/2/80	12/31/80 - Definitive duty
EC	United States	Paper masking tape	5/31/80		12/19/80 - No dumping
EC	United States	Saccharin and its salts	8/17/79		12/9/80 - Price undertakings
EC	United States	Vinyl acetate monomer	7/19/80	11/21/80	
EC	United States	Lithium hydroxide	7/19/80		8/30/80 - Definitive duty 3/
EC	United States	Styrene monomer	7/26/80		
EC	United States	Orthoxylene	11/5/80		
EC	United States	Paraxylene	11/5/80		
EC	United States	Textured polyester fabrics	12/24/80		
Finland	Switzerland	Coffee filter bags	7/10/80	12/18/80 - Price undertakings	
Finland	West Germany	Coffee filter bags	7/10/80	12/17/80 - Price undertakings	
United States	Austria	Melamine	5/1/79	11/13/79	4/29/80 - No injury
United States	Belgium	Carbon Steel Products	4/11/80		10/2/80 - Case withdrawn
United States	Canada	Sodium Acetate	3/29/79	10/4/79	1/3/80 - No injury
United States	Canada	Sugar and Sirups	4/30/79	11/8/79	4/9/80 - Definitive duty
United States	Canada	Canned Clams	3/6/80		4/30/80 - No injury
United States	Canada	Asphalt Roofing Shingles	9/9/80		9/30/80 - No injury
United States	East Germany	Black Montan Wax	9/24/80		

Table 4.--Antidumping actions reported by signatories to the GATT antidumping code, 1980--continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
United States--	EC	Carbon Steel	3/17/80		10/1/80 - Case withdrawn
United States--	France	Sodium Hydroxide	4/20/79		2/15/80 - No injury
United States--	France	Certain Steel Products	4/11/80		10/2/80 - Case withdrawn
United States--	France	Anhydrous Sodium Metasilicate	6/9/80	9/5/80	
United States--	India	Certain Iron Metal Castings	12/10/80		
United States--	Italy	Sodium Hydroxide	4/20/79		2/15/80 - No injury
United States--	Italy	Melamine	5/1/79	11/13/79	4/29/80 - No injury
United States--	Italy	Spun Acrylic Yarn	7/2/79	12/20/79	4/8/80 - Definitive duty
United States--	Italy	Rail Passenger Cars	11/27/79		2/11/80 - No injury
United States--	Italy	Certain Steel Products	4/11/80		10/2/80 - Case withdrawn
United States--	Italy	Strontium Nitrate	9/30/80		
United States--	Japan	Spun Acrylic Yarn	1/4/79	7/13/79	4/8/80 - Definitive duty
United States--	Japan	Portable Electric Typewriters	5/18/79	1/4/80	3/21/80 - Definitive duty
United States--	Japan	Countertop Microwave Ovens	8/29/79	7/15/80	12/8/80 - Case withdrawn
United States--	Japan	Electric Motors			
		Under 150 Horsepower	10/3/79	6/20/80	11/6/80 - Price undertaking
		Over 150 Horsepower	10/3/79	6/20/80	12/12/80 - Definitive duty
United States--	Japan	Rail Passenger Cars	11/27/79		2/11/80 - No injury
United States--	Japan	Steel Pipes and Tubing	3/25/80		6/24/80 - No injury
United States--	Japan	Menthol	6/17/80		7/22/80 - No injury
United States--	South Korea	Certain Steel Wire Nails	4/20/79	10/26/79	8/13/80 - No injury
United States--	Luxembourg	Certain Steel Products	4/11/80		10/2/80 - Case withdrawn
United States--	Mexico	Picker Sticks	5/2/73	11/7/73	7/16/80 - Order revoked (Definitive duty issued 5/6/74)
United States--	Mexico	Squash, Peppers, Eggplant, and Cucumbers	10/19/79	11/5/79	3/28/80 - No dumping
United States--	Netherlands	Certain Steel Products	4/11/80		10/2/80 - Case withdrawn
United States--	Netherlands	Melamine	5/1/79	2/26/80	4/28/80 - No dumping
United States--	Peoples Republic of China	Menthol	7/2/80		
United States--	Sweden	Cement	1955		7/3/80 - Order revoked
United States--	Switzerland	Portable Electric Nibblers	10/3/80		11/19/80 - No injury

Table 4.--Antidumping actions reported by signatories to the GATT antidumping code, 1980--continued

Reporting country	Action taken against	Product	Initiation date	Provisional measures	Final outcome
United States---	United Kingdom	Water Circulating Pumps	5/21/75	11/26/75	1/5/80 - Order revoked (Definitive duty issued 5/27/76)
United States---	United Kingdom	Certain Marine Radar Systems	11/6/78	5/17/79	1/18/80 - No injury
United States---	United Kingdom	Sodium Hydroxide	4/20/79		2/15/80 - No injury
United States---	United Kingdom	Certain Steel Products	4/11/80		10/2/80 - Case withdrawn
United States---	United Kingdom	Latchet Hook Kits	11/13/80		12/10/80 - Petition rejected
United States---	West Germany	Certain Steel Products	4/11/80		10/2/80 - Case withdrawn
United States---	West Germany	Precipitated Barium Carbonate	9/30/80		
United States---	West Germany	Precipitated Strontium Carbonate	9/30/80		10/21/80 - No injury
United States---	West Germany	Snow Grooming Vehicles	11/28/80		12/16/80 - No injury

1/ With exceptions for certain types on which no injury was found.
2/ Only applied to some producers; no injury found on other producers.
3/ Review of a definitive duty originally imposed on Jan. 30, 1980.

Source: Compiled from documents of The General Agreement on Tariffs and Trade.

In the Committee's early meetings there was much discussion of the legal status of such commitments and whether they should be formally examined and approved by the signatories. These discussions led to the Committee's adoption of an agreed procedure for handling such commitments under which they would be noted by the Committee, without being formally approved or accepted, after a period of informal examination of the commitment and consultation among signatories. The commitments were generally regarded as unilateral and voluntary. Brazil, Korea, Pakistan, and Urugray notified commitments under Article 14:5 in 1980.

India signed the Agreement on July 11, 1980, and indicated that it did not intend to enter into a commitment under Article 14:5. Subsequently the United States notified the GATT Secretariat that it would invoke Article 19:9 of the Agreement with respect to India and therefore would not apply the Agreement to India. A short time later the United States imposed a countervailing duty on industrial fasteners from India without a determination as to whether the imports of such fasteners were causing or threatening material injury to a U.S. industry.

At the Committee's first formal meeting subsequent to India's accession to the Agreement, held in October, the Committee was requested by India to examine U.S. invocation of Article 19:9 against India. A meeting was convened in December for this purpose. India contended (1) that the U.S. invocation of Article 19:9 was inappropriate and incorrect because the United States was in effect using Article 19.9 as a lever to extract Article 14:5 commitments from developing countries; (2) that such U.S. action contravenes the Agreement since Article 14:5 commitments are not obligatory, and consequently the U.S. action could be considered as constituting a conditional acceptance of the Agreement by the United States which the United States unilaterally made after the Agreement had entered into force; and (3) the procedures followed by the United States in involing Article 19:9 were erroneous, and therefore the U.S. invocation shold be deemed to be not effective. The December discussion of the matter was inconclusive. The Committee agreed to take the matter up again at its next session, and authorized the chairman in the meantime to consult informally with signatories on how the Committee might proceed in its future examination. 1/

The Committee established two groups of technical experts to pursue two technical issues not settled during the MTN. One of the groups was established jointly with the Antidumping Committee to develop a definition of the word "related" for purposes of defining a domestic industry where producers are related to the exporters or importers or are themselves importers. The second group was to develop criteria for the calculation of the amount of a subsidy. Organizational meetings of the expert groups were held in 1980. It was expected that they would submit reports to the Committee in 1981.

Notifications of national legislation and implmenting regulations submitted by 8 of the signatories were examined in detail by the Committee, during which attention was drawn to provisions which certain signatories believed should be modified to conform better to the Agreement. The Committee also examined Canada's draft legislation and proposed modifications where it felt there was a discrepancy between the proposed legislation and the Agreement.

1/ In addition to seeking discussion of the Subsidies Code issues in the

The Agreement requires signatories to report semi-annually to the Committee any countervailing duty actions taken during the preceding 6 months. Austria, Finland, Norway, Sweden, Switzerland, Japan, Hong Kong, and Brazil reported to the secretariat that they had not taken any countervailing duty action during 1980. Yugoslavia, Korea, Uruguay, and Chile did not submit reports for the first 6 months of 1980; for the second 6 months, all four reported that no countervailing duty actions were taken.

The EEC reported only one countervailing duty action in 1980. On December 18, 1979, the EEC initiated a countervailing duty action against stainless steel bars from Brazil. No provisional measures were taken, and on June 5, 1980, a decision of no subsidy was rendered.

Canada reported several countervailing duty actions in 1980. On October 31, 1978, Canada initiated three countervailing duty actions on baler twine from Brazil, Mexico, and Tanzania. On January 1, 1980, Canada decided not to apply provisional duties, or to refer the cases to the Anti-dumping Tribunal, but to terminate the cases. Three countervailing duty actions were initiated on July 4, 1980, on emmenthal cheese from Austria, Finland, and Switzerland. Provisional duties were applied against all three on December 12, 1980. On April 2, 1981, Canada decided not to apply provisional duties, and not to refer the cases to the Anti-dumping Tribunal.

The United States reported to the GATT that in 1980 it had initiated 10 countervailing duty actions, made 15 determinations, and imposed countervailing duties in 5 cases. Countervailing duties were imposed on pig iron from Brazil, industrial fasteners from India, ferroalloys from Spain, grey metal iron casting from India, and roses from Israel.

<u>Agreement on Technical Barriers to Trade</u>.--The Standards Code, formally known as the Agreement on Technical Barriers to Trade, which entered into force on January 1, 1980, aims to ensure that technical regulations and product standards established for reasons of safety, health, consumer or environmental protection, or other purposes by governments or other bodies do not create unnecessary obstacles to trade. A key provision of the agreement requires that parties ensure that technical regulations and standards are not prepared, adopted or applied with a view to creating obstacles to international trade, and that, in relation to such regulations and standards, products imported from any party shall be accorded treatment no less favorable than that accorded to like products of national origin and to like products originating in any other country.

The agreement is administered by the Committee on Technical Barriers to Trade, composed of representatives from each of the parties. The Committee, chaired by a U.S. Government official during the first year of operation, held five meetings in 1980 to examine progress of signatories in implementing and administering the agreement and to establish procedures necessary for its operation. All signatories reported to the Committee on the measures in existence or taken by them to implement and administer the agreement, including the establishment of a central inquiry point, the publication of notices, and notification of the GATT secretariat of proposed regulations or standards that may have a significant effect on trade. The secretariat received approximately 100 such notifications in 1980. The first annual review of the operation of the agreement was begun in the November meeting of the Committee.

The first invocation of dispute settlement procedures under any of the MTN codes occurred when the United States requested the Committee, under article 14.4 of the agreement, to consider a U.S. complaint that the United Kingdom was requiring U.S. poultry producers to comply with European Community processing directives but would not require United Kingdom producers to comply until August 1982. The United States held this to be in violation of United Kingdom obligations under article 2.1 of the agreement to extend national treatment to other signatories, and that the agreement was applicable by virtue of article 14.25 which states that the agreement's dispute settlement procedures can be invoked where a Party considers that obligations under the agreement are being circumvented by the drafting of requirements in terms of processes and production methods (PPM's) rather than in terms of characteristics of products. There appeared to be implicit agreement among Committee members that the United Kingdom was violating the principal of national treatment, but there was no consensus as to whether there was a violation of the agreement. Several countries were of the view that processes and production methods were covered by the agreement only in cases where standards are drafted in such terms to circumvent code obligations, and that this did not appear to be the case in the U.S. complaint. Since the United States would not be able to get relief expeditiously in the Committee, it decided to pursue the matter under the regular GATT dispute settlement procedures rather than under the Standards Agreement. However, given the significance of the issue of the applicability of the agreement to PPM's, the Committee agreed to keep the general issue on its work agenda and asked the GATT secretariat to prepare a factual background paper on the question.

At yearend, 27 countries and the European Economic Community were signatories to the agreement. Six of these countries (Hungary, Republic of Korea, Romania, Singapore, Spain, and Yugoslavia) were new signatories in 1980. Some of the signatories were still in the process of ratification of the agreement. Tunisia, which has provisionally acceded to the GATT, was discussing accession under article 15.2 with the Committee; and a working party was established to draw up proposals for mutually satisfactory terms for the accession of Bulgaria, a noncontracting party to the GATT, under article 15.3. On several occasions during the year signatories discussed terms for Indian accession to the agreement in which India would be granted certain exceptions pursuant to article 12.8 which provides that the Committee can grant developing countries specified, time-limited exceptions from obligations under the agreement. At yearend, however, India had not acceded to the agreement.

Agreement on Import Licensing Procedures.--The Agreement on Import Licensing Procedures, the purpose of which is to ensure that such procedures do not in themselves act as restrictions on imports, entered into force on January 1, 1980, with 14 signatories. Six additional countries (Australia, Czechoslovakia, Hungary, India, Romania, and Yugoslavia) signed the agreement during 1980. Some of the signatories were still in the process of ratifying the agreement when the year ended.

The agreement established a Committee on Import Licensing, composed of representatives of each of the signatories, to administer the agreement. The Committee, chaired during 1980 by a Japanese Government official, held three meetings. An important step for the effective implementation of the agreement was achieved when the Committee, in its second meeting, agreed upon information to be supplied and notification procedures with respect to signatories' licensing systems. The suggested by the GATT secretariat, obligate signatories to inform the Committee of all aspects of their licensing systems, a fundamental step if the Committee is to perform meaningful surveillance of licensing practices. The procedures add an additional dimension to the transparency envisaged by the agreement.

Article 5.5 of the agreement requires the Committee to review at least once every 2 years the implementation and operation of the agreement and to inform the GATT Contracting Parties of developments during the period covered by the review. In December the Committee adopted procedures for the first review to be held in the fall of 1981 and agreed that preparatory to the review signatories in the spring of 1981 would conduct a country-by-country examination of the information which had been supplied on signatories' licensing systems.

The year ended without a decision as to the nature of the dispute settlement mechanism for the agreement, or agreement on procedures for the accession of countries not contracting parties to the GATT.

In 1979, Brazil had indicated willingness to adhere to the agreement, but with certain reservations. These were unacceptable to most signatories. The United States, desirous of bringing Brazilian licensing practices under the discipline of the agreement, sought in discussions with Brazil and signatories to the agreement a formulation which would permit Brazil to adhere to the agreement, but was not successful in this endeavor in 1980.

Agreement on Trade in Civil Aircraft.--The Agreement on Trade in Civil Aircraft seeks to achieve maximum freedom of world trade in civil aircraft by providing duty-free treatment for civil aircraft and specified parts and components and also by seeking to reduce or eliminate the trade restricting or distorting effects of governmental nontariff measures on this trade. The agreement entered into force on January 1, 1980, with 17 signatories. Romania became the 18th signatory on June 25, 1980.

The Committee on Trade in Civil Aircraft, establish by article 8 of the agreement and composed of representatives of all signatories, held three meetings in 1980 under the chairmanship of a United Kingdom Government official. At the first meeting it established the Technical Subcommittee on Trade in Civil Aircraft mandated by article 8.4 of the agreement. The Technical Subcommittee was charged with assisting the Committee with purely technical aspects of the implementation and operation of the agreement, most of which would fall in two areas: (1) achieving the agreement's objectives of broadening in due course the product coverage to include more parts, subassemblies, and components; and (2) specific problems in product coverage, end-use systems necessary for implementation of the agreement, customs duties and other charges, and matters relating to aircraft nomenclature. A Canadian Government official chaired the Subcommittee during the first year of its operation. The Subcommittee held four meetings in 1980 to consider technical aspects of most of the matters which came before the Committee and to formulate recommendations to the Committee.

Product coverage.--Article 8.3 of the agreement states that not later than the end of the third year from the entry into force of the agreement and periodically thereafter, signatories shall undertake further negotiations, with a view to broadening and improving the agreement on the basis of mutual reciprocity. One way of broadening the agreement is the product coverage to include parts, subassemblies, and components which were not initially included, generally because of tariff nomenclature or administrative problems. Early in 1980 the European Community, Canada, and Sweden began to press for such negotiations and submitted lists of products for consideration at the first meeting of the Technical Subcommittee in April. A major part of the Subcommittee's time was spent on this issue for the rest of the year. The United States position generally was that work on expansion of product coverage in the first year of the agreement was premature, but by the end of the year, the Subcommittee's work had developed to the point that it decided to submit a list of selected products to the Committee for consideration and guidance.

Also in the area of product coverage, it was discovered that, through an oversight, component units for data processing machines had been omitted from the list of products covered by the agreement, based on Customs Cooperation Council Nomenclature (CCCN) Headings, and consequently such products were not covered for those countries using the CCCN as the basis for their tariff nomenclature. It was agreed that this was an inadvertent omission and that coverage of such products was intended, but because of procedural difficulties associated with formal amendment of the product coverage, the issue was not resolved by the end of the year.

Definition of civil aircraft.--Article 1 of the agreement defines "civil aircraft" as all aircraft other than military aircraft. This lack of specificity, and the fact that certain functions performed by organizations associated with the armed forces in one country and carried out in other countries by purely civil agencies of the government, naturally gave rise early on to questions of when and if aircraft purchased by certain government entities in signatory countries are covered by the agreement. This issue was near resolution when the year ended.

End-use systems.--Many products covered by the agreement actually have multiple uses other than in aircraft. Therefore, in order to qualify for duty-free treatment under the agreement importers must certify that the imported product is for use in civil aircraft. The administration of so-called "end-use" provisions by customs services tends to be cumbersome and may actually operate as a hinderance to trade. For this reason the Committee surveyed the end-use systems used by each country in implementing the agreement.

Statistical reporting.--The United States proposed in the Technical Subcommittee that in order to monitor operation of the agreement signatories should have a program of regular statistical reporting for trade in products covered by the agreement. The Committee adopted a recommendation aimed at the development of such a program, but little progress was made in this area because of serious technical administrative difficulties encountered by some signatories.

Relationship to the Agreements on Subsidies and Standards.--In the Aircraft Agreement, signatories note that the Agreement on Technical Barriers to Trade and the Agreement on Subsidies and Countervailing Measures apply to trade in civil aircraft. All original signatories were also signatories to these two agreements. The accession of Romania, which was not a signatory to the agreements, raised a question as to the extent of Romania's obligations in these two areas under the Aircraft Agreement. The Committee agreed that by virtue of acceptance of the Agreement on Trade in Civil Aircraft, signatories would apply to their trade in Civil Aircraft the provisions of the Agreement on Technical Barriers to Trade and of the Agreement on Subsidies and Countervailing Measures.

Other topics.--The agreement requires signatories to incorporate in their GATT schedules the duty-free binding of products covered by the agreement. In spite of constant urging by the United States, this had not been done by all signatories at the close of 1980.

The Committee decided that GATT procedures would be used in the modification and rectification of schedules annexed to the agreement.

In response to a U.S. proposal, the Technical Subcommittee examined the chapter on aircraft in the proposed Harmonized System for nomenclature being developed by the Harmonized System Committee under the aegis of the Customs Cooperation Council, with a view to having the provisions of this chapter facilitate operation of the Aircraft Agreement. The examination faltered over the problem of defining civil aircraft for purposes of the Harmonized System.

The United States, having a general concern that the important nontariff provisions of the agreement were receiving inadequate attention and that there was a tendency to concentrate on the operation of the tariff provisions, proposed in the December meeting that signatories establish a requirement that significant governmental supports of civil aircraft programs, including programs involving engines, components, equipment and parts, be regularly and promptly notified to the Committee in order to enhance operation of the agreement and to provide a procedure for monitoring the application of article 6, which deals with government support, export credits, and aircraft marketing.

In order to conform with the provisions of title IV of the Trade Act of 1974, which sets the conditions under which U.S. imports from Communist countries may receive nondiscriminatory (i.e., MFN) tariff treatment, the United States, pursuant to article 9 of the agreement, notified the signatories that the United States will apply article 2 of the agreement (duty-free treatment) with respect to Romania for such time as the United States accords nondiscriminatory treatment to products of Romania.

Arrangement Regarding Bovine Meat.--The Arrangement Regarding Bovine Meat entered into force on January 1, 1980, with 16 signatories. Five additional countries, Australia, Romania, Tunisia, Uruguay, and Yugoslavia, signed the arrangement in 1980. The arrangement, which covers beef, veal, and live cattle, seeks to promote expansion, liberalization, and stablization of trade in meat and livestock and to improve international cooperation in the sector, principally through the establishment of a central pool of data on production, trade, and prices and through reviews and consultations on market conditions and problems in the sector.

The International Meat Council, established by the arrangement for its administration, is comprised of representatives of each of the parties to the arrangement. During its first year of operation, the Council was chaired by a Canadian Government official. It met on three occasions in 1980, in the course of which, as required by the arrangement, it reviewed the operation of the arrangement and made an evaluation of the world supply and demand situation and outlook for bovine meat. In the context of this evaluation, there was a discussion of the complaint by Argentina that exports increased due to the EC's restitution (subsidy)

The Council also discussed proposals by Australia to establish a meat trade analysis group and a trade expansion and liberalization group. The GATT secretariat was instructed to develop additional information on these proposals for consideration by the Council in 1981.

International Dairy Arrangement.--The International Dairy Arrangement entered into force on January 1, 1980, with 15 signatories. Three additional countries, Australia, Romania, and Uruguay, signed the arrangement in 1980. The purpose of the arrangement is to improve cooperation in the dairy products sector with the objective of expanding and liberalizing world trade. This is to be accomplished through the establishment of a central pool of data on world production, trade, stocks, and prices of dairy products and through reviews and consultations on market conditions and problems in the sector.

The arrangement is administered by the International Dairy Products Council, which is established by the arrangement and is comprised of representatives of each of the parties to the arrangement. During its first year of operation, the Council was chaired by New Zealand Government officials. The Council established three Committees to implement the protocols regarding milk powders, milk fat, and cheeses. The Committees are chaired by a GATT secretariat official. The Council held three meetings in 1980.

In 1980, as required by the arrangement, the Council reviewed the functioning of the arrangement and evaluated the situation in and outlook for the world market in dairy products. The general consensus was that the market was satisfactory.

Each of the three protocol Committees (milk powders, milk fat, and certain cheeses) met four times in 1980. In accordance with their terms of reference, the Committees examined the level of minimum prices of the products covered by the protocols. At their September session, it was decided to make a slight increase in the minimum prices, effective October 1, 1980, to the following level per metric ton: skimmed milk powder, U.S. $500; whole milk powder, U.S. $800; butter, U.S. $1,000; anhydrous milk fat, U.S. $1,200; certain cheeses, U.S. $900.

Agreement on Customs Valuation.--The customs Valuation Agreement, formally titled the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, was not to come into effect internationally until January 1, 1981, but the United States and the European Community agreed to implement the agreement on July 1, 1980, reflecting the EC's strong interest in abolition of the "American Selling Price" system of customs valuation used by the United States for some products, notably benzenoid chemicals and rubber-soled footwear with fabric uppers. The purpose of the agreement is to provide detailed rules for the determination of value of imported goods for the assessment of ad valorem customs duties. The rules are designed to provide a fair, uniform, and neutral system of valuation, and preclude the use of arbitrary or fictitious values.

The agreement provides for a primary method of valuation and a series of alternative methods that must be applied in a prescribed sequence. The primary method of valuation is the transaction value under which the dutiable value is based on the price actually paid or payable for the goods, with a limited number of adjustments for items such as selling commissions, packing costs, and certain costs for materials and services used in producing the goods that were borne by the buyer but not reflected in the price paid or payable for the goods. It is anticipated that the transaction value will be used in all but a limited number of cases. A party to the agreement is permitted to determine customs values on either an f.o.b. (free on board) or c.i.f. (cost, insurance, and freight) basis. The United States is continuing to use f.o.b., and other countries intend to continue their existing practices, mainly c.i.f.

The agreement provides for the establishment of a Committee on Customs Valuation in the GATT to supervise the implementation of the agreement and to allow signatories to consult on matters concerning the management of the agreement. A Technical Committee under the direction of the Customs Cooperation Council (CCC) is also provided for in the agreement to provide technical expertise to handle the technical aspects of the agreement. These Committees were not formally constituted, however, until the agreement entered into force among the participating countries on January 1, 1981.

Informal stock-taking sessions were held periodically by signatories and potential signatories to the agreement during the second half of 1980. The purpose of these meetings was to review the status of acceptances of the agreement and the progress of implementing legislation in the signatory countries. Also, views were exchanged on the questions expected to be addressed at the first formal meeting of the Committee in 1981, such as procedures for handling reservations under the agreement, technical assistance for developing countries, and a proposed work program for the CCC Technical Committee.

At yearend there were 17 signatories to the agreement, including the European Community. Seven countries (Argentina, Hungary, India, Korea, Romania, Spain, and Yugoslavia) had signed in 1980.

Agreement on Government Procurement.--The Agreement on Government Procurement was the second of the MTN nontariff measures codes that was not scheduled to enter into force until January 1, 1981, in recognition of the long lead time that would be necessary for signatories to make the changes necessary in domestic legislation and regulations in order to apply the agreement. The agreement is designed to make laws, regulations, procedures and practices regarding government procurement more transparent, and to ensure that they do not protect domestic products or suppliers, or discriminate among foreign products or suppliers.

Annexes to the agreement list the government entities (ministries, departments, agencies, etc.) whose procurement practices will be governed by the procedures specified in the agreement. Reciprocity in market opportunities under the agreement is achieved by the balance among countries of the volume of procurement of the entities listed by a country which will come under the rules of the agreement. The entities listed by a signatory therefore become perhaps the most critical element of the agreement. Both the United States and the European Community signed the agreement in December 1979 subject to satisfactory completion of negotiations on entity coverage. Such negotiations continued through 1980 among the December 1979 signatories, as well as with potential signatories.

The single most significant development concerning the agreement in 1980 was the successful conclusion of negotiations between the United States and

Nippon Telephone and Telegraph (NTT). The United States had indicated dissatisfaction with Japan's entity coverage under the agreement, as had also the European Community. Without adequate improvement, there was some question as to whether the agreement would enter into force as scheduled; the United States had indicated that at a minimum it would not apply the agreement to Japan.

In the 1979 entity negotiations, Japan offered its central government ministries for agreement coverage. Procurement within these ministries, however, is widely dispersed among a number of units, rather than handled by a central purchasing unit. This meant that a large part of tenders would fall below the threshold (150,000 Special Drawing Rights, or about $198,000) for coverage under the agreement. This situation contributed largely to the inadequacy of Japan's entity coverage.

The United States from the beginning had sought to have procurement by NTT included under the agreement, but Japan had resisted, partly on the basis that NTT was a semipublic enterprise, and partly because similar procurement by the private telecommunication companies of the United States could never be included under the agreement. A full year of intensive negotiations between the United States and Japan resulted in the bilateral agreement of December 16, 1980, in which Japan agreed to place certain NTT procurement under the Government Procurement Code and to conduct other NTT procurement practices in a manner that would conform with code requirements.

The NTT Agreement contains three major elements. First, Japan agreed to increase its formal code offer to almost half of NTT's purchases through a broad interpretation of the term nonpublic telecommunications equipment. This increased the NTT offer to $1.5 billion by including off-line telecommunications equipment such as data terminal equipment, off-line computers, and PBX's and facsimiles under code coverage. Secondly, for the remainder of NTT's purchases, Japan agreed to provide full access through a bilateral agreement committing NTT to conduct all of its purchases in conformance with code obligations. Included as part of the bilateral agreement was a document entitled "NTT Procurement Procedures" which identified and detailed the particular procedures which NTT will follow. The NTT Agreement also contains a dispute settlement mechanism which provides for nonbinding arbitration where problems cannot be resolved by consultations.

The final element of the NTT agreement concerns Japan's interconnect market (customer provided equipment) which is regulated by NTT. A joint statement on the interconnect market was agreed to whereby NTT will undertake a series of measures which will facilitate access to Japan's interconnect market. Specifically, NTT agreed to publish all documents and information necessary for firms to learn how to successfully apply for product approval, to act on applications expeditiously, to accept foreign test data, and to draft technical requirements in terms of performance criteria rather than design criteria.

The bilateral NTT agreement has a 3-year lifespan. During this period, the performance of the agreement will be closely monitored. At the end of 3 years, the situation is to be re-examined and the agreement may be extended.

Entity negotiations with Austria and Singapore were also successfully completed in 1980.

Signatories and potential signatories met informally several times during the year to take stock on the domestic preparations by each country to implement the code on January 1981, to discuss numerous questions which had arisen concerning provisions of the agreement as countries prepared for implementation, and to develop an agreed program for statistical reporting of procurement activities of signatories.

At yearend the agreement had 11 signatories, including the European Community. Canada and Singapore became signatories in 1980.

CHAPTER III

TRADE AGREEMENT ACTIVITIES OUTSIDE OF THE GATT

United States Participation in the OECD

The Organization for Economic Co-operation and Development (OECD) was begun in 1961, as a successor to the Organization for European Economic Co-operation (OEEC). The change was made to accommodate the accession of non-European members--the United States and Canada--and to add development aid and relations with less developed countries to the scope of issues dealt with in the organization. The objectives of the OECD are to promote economic and social welfare throughout the OECD area by assisting its member governments in the formulation and coordination of appropriate policies, and to promote and coordinate its members' efforts on behalf of developing countries.

The Council of the OECD meets at Ministerial level, usually once a year, and more frequently at the Permanent Representatives level under the chairmanship of the Secretary-General--currently Emile van Lennep. The major work of the organization is carried out within a large number of committees, subcommittees, working parties, and so forth, composed of representatives of the member countries and assisted by the Paris-based Secretariat. The scope of the OECD's activities is very wide, encompassing work in the fields of economic and trade policy, energy, financial and fiscal affairs, agriculture, manpower and education, environment, science and technology, and development cooperation. The Organization serves its members in several ways: (1) by serving as a forum for policy coordination among developed countries; (2) by carrying out technical and policy studies; and (3) in some cases by providing a framework for joint action.

Perhaps the best known role of the Organization is that of coordination of economic policy among the industrialized countries. 1/ The communique of the meeting of the OECD Council at Ministerial level during June 3-4, 1980, emphasized the need for supply-side economic policies during the current period of recovery from the second "oil shock." The strategy that emerged, with broader acceptance among OECD countries than during the 1974 crisis, called for two phases of action. The fight against inflation was agreed to be of paramount importance in the first phase. The plan was to use relatively tight monetary and fiscal policies to "prevent higher oil prices from pushing up the underlying rate of inflation." 2/ The major benefit of this effort will be to protect the profitability of productive investments to make

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1/ Members of the OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The Commission of the European Communities and Yugoslavia also take part in the work of the Organization.

2/ Communique of the OECD Council at Ministerial Level, June 4, 1980.

possible the second phase of investment-led, supply-oriented growth in output and employment. Ministers agreed that during the expansion phase, priority in fiscal policies should be given to measures that lower costs and promote investment. They called for "measures to encourage investment and improve the operation of the market mechanism through the removal of distortions and rigidities, vigorous action against restrictive business practices and maintaining an open system for international trade and investment." 1/

The OECD also plays a major part in formulating and implementing international trade policies of the industrial countries. In recent years, the definition of the U.S. trade agreements program has expanded. 2/ Under the Trade Act of 1974 and the Trade Agreements Act of 1979 there is strong emphasis on negotiations to eliminate nontariff measures that hinder trade, and the definition of trade was extended to explicitly include trade in services. There is also a very broad mandate (in sec. 301 of the Trade Act of 1974) for the President to take action against "acts or policies which are unjustifiable or unreasonable and which burden or restrict United States commerce." In these circumstances, the OECD has played an increasingly useful role as a forum to discuss trade and trade-related issues, and where international consensus on the nature of problems facing the industrial countries and on appropriate solutions to them can be developed. Trade-related issues of particular interest to the United States that were dealt with in the Organization during 1980 are discussed briefly in the sections that follow.

Negotiations on export credit guidelines

For the past 3 years the United States has been pushing its OECD partners to adjust the Arrangement on Guidelines for Officially Supported Export Credits (the Arrangement) to bring under control the recent rapid growth of export credit subsidies and to avoid distortions of the conditions of international competition. During 1980 participants in the OECD Arrangement agreed in principle that some changes in the export credit guidelines were necessary, but were unable to reach a consensus on a specific solution.

The original arrangement.--The Arrangement was adopted in April 1978 by the 22 members of the OECD's Group on Export Credits and Credit Guarantees. The minimum interest rates to be charged by participants in the Arrangement were set from 7.25 percent to 8 percent, depending on the length of the loan

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1/ Ibid.

2/ One definition of the trade agreements program is those activities that are the policy responsibility of the United States Trade Representative (USTR) and the interagency Trade Policy Committee. Under Reorganization Plan No. 3, effective on Jan. 1, 1980, the policy responsibility of USTR was broadened and now covers trade-related investment issues, trade in services, and international commmodity negotiations. The USTR also shares with the State Department the leadership of the U.S. delegation to the OECD Trade Committee.

and the development status of the borrowing country. 1/ The guidelines also established minimum cash payments of 15 percent of export value. Maximum repayment periods were set at 8 years for loans to relatively rich and intermediate countries and at 10 years for loans to poorer countries. The guidelines do not apply to exports of military products, aircraft, agricultural goods, or nuclear energy products.

Problems with the Arrangement.--The current guidelines were set before market interest rates soared in late 1978 and 1979 and provided no automatic mechanism for adjusting export credit interest rates to changing world financial market conditions. Also, the minimum interest rates apply uniformly to lending in all currencies and ignore differing inflation rates and exchange-rate prospects. The major U.S. complaint against the present Arrangement is that--at current market interest rates--it results in significant export credit subsidies. Total subsidies by exporting countries were estimated at $5.5 billion in 1980 and there is no sign of forthcoming decreases. 2/ For the official export credit agency of the United States--the Eximbank--the increasing cost of funds made it even more difficult and expensive for the Bank to meet foreign credit financing competition. 3/ Eximbank's average lending rates are higher than many foreign counterpart institutions that are not required to show a profit.

Developments and delays in 1980.--In early 1980, the OECD's export credit group released the Wallen Report. The report directly addressed the problems of the original Arrangement, and offered two alternate methods of setting interest rates that would better reflect the market cost of providing export financing.

The first method, called the Uniform Moving Matrix, would weight the yields of Government bonds in the five major trading currencies by their weights in the International Monetary Fund's (IMF) special drawing right (SDR). 4/ The basket interest rate that emerged--as the weighted average of the five interest rates--would be the new minimum export credit rate applicable to lending by any Arrangement participant in any currency.

1/ This system of rates is called the "static matrix" since it lacks provisions for changing the matrix of minimum rates over time to take account of free-market interest rates or the cost of funds to the lending agencies.

2/ $5.5 billion estimate by the OECD.

3/ Lending rates are roughly 9 percent, while the Eximbank's average cost of money is roughly 10.5 percent and its marginal cost is about 14 percent. (Statement of Robert A. Cornell, Deputy Assistant Secretary of the Treasury for Trade and Investment Policy, in hearings before the Subcommittee on International Finance and Monetary Policy, Committee on Banking, Housing and Urban Affairs, United States Senate, July 20, 1981).

4/ SDR's are a form of international liquid reserves used in the settlement of international payments among member governments of the IMF. For more information on SDR's, see the IMF Annual Report.

The second alternative, the differentiated rate system (DRS), would use the secondary (resale) market yields on the long-term Government bonds of each lending country to determine directly the minimum export credit rate allowed for that country. Under either alternative, the minimum export credit rate would be adjusted periodically to take account of financial market movements, but only under the DRS would there be differences between countries in the minimum lending rates allowed.

At the May 1980 meeting in Paris of the Export Credit Group, the United States supported the DRS, and most other countries supported the less innovative Uniform Moving Matrix plan. The only thing all countries could agree on was a small increase in the minimum interest rates of the Arrangement. An increase of 0 .75 percent for lending to wealthier nations and 0.25 percent for poorer nations took effect July 1, 1980. Participants in the May meeting stressed that this was an interim measure and expressed hope that a more permanent solution could be discussed in June at the OECD Ministerial and at the Venice heads-of-state summit meeting. Meanwhile, the EC, which was not ready to accept the DRS, agreed to reconsider the Wallen Report during internal meetings over the summer.

At the Venice Economic Summit the situation appeared promising when participants released a statement agreeing "to strengthen the international arrangement on export credits (and work to reach) a mutually acceptable solution covering all aspects of the Arrangement by 1 December 1980." Unfortunately, fall negotiations between EC finance ministers failed to result in a common EC stance. Thus, the December meeting of the Export Credits Group met with little success. The EC offered to go along with only minimal interest-rate increases: 0.8 percent for poor country borrowers and 1 percent for rich country borrowers. Japan refused these small but undifferentiated increases unless allowances could be made for countries (like Japan) with market interest rates below the new Arrangement rates. The EC was unable to take a united stand on this point and so the whole issue of modifying the Arrangement was put off until the next meeting of the Group in 1981.

Outlook for 1981.--The United States called the 1980 changes in the Arrangement "grossly inadequate" and announced its determination to take measures to insure substantial adjustments. Robert Cornell, Deputy Assistant Secretary of the Treasury for Trade and Investment Policy, warned that "Eximbank (would be needed) to support U.S. exporters against the predatory financing practices of other governments." Robert McNamar, Deputy Secretary of the Treasury, also stated that unless the problem was resolved soon an export credit war was imminent.

Making the "Trade Pledge" permanent

At the time of the first oil crisis in 1974, the OECD Council of Ministers adopted the so-called Trade Pledge, committing members of the Organization, for a period of one year, to avoid taking unilateral measures to restrict trade. With minor variations, the Pledge was renewed annually until 1979. In 1980, the OECD Council adopted a new Declaration on Trade Policy that represents an open-ended commitment, one that is positive rather than defensive in tone. In it, OECD members agreed "to implement fully and effectively the commitments made in the Multilateral Trade Negotiations, both in their letter and spirit; to avoid measures which might erode the achievement of these negotiations; and to continue their efforts toward further improvements in such areas which were not covered by the negotiations or where adequate results have not been achieved."

The new Declaration also provides for periodic reviews within the Trade Committee of progress toward the goals set out. These reviews are in addition to existing Trade Committee procedures for review of specific trade-limiting actions that are taken by individual members. The first such review was conducted during January-June 1981, and assessed developments in trade policy since the beginning of 1980. The Trade Committee's report concluded that during this period "liberalization of trade suffered no fundamental interruption" 1/ despite a worsening economic environment. Few new protectionist measures of the conventional type were introduced, although, the Committee noted that "there was a greater tendency to use other measures--to seek ad hoc and often bilateral solutions" to trade problems.

Toward negotiations on international trade in services

The exchange of services has become a vital element in international trade particularly in the OECD area. Often referred to as "invisibles," services are intangible economic output sold by establishments. Among the industries in the service sector are telecommunications, banking, insurance, transportation, health care, and construction/engineering. Some service industries, such as telecommunications, are among the fastest growing, most dynamic economic sectors in the world. 2/ They are also among the most stringently regulated for economic, consumer-protection, and national security reasons. However, no international framework currently exists that specifically addresses the problems and obstacles confronted by service firms in conducting their international business. Since there is no established body of international agreements concerning fair trade in services, service trade problems are worked out on a case-by-case basis through bilateral channels.

Barriers to services trade.--Breaking down barriers to services trade is difficult because the obstacles rarely take the familiar forms of tariffs or quotas. Often services confront "nontariff barriers" to trade--obstructive regulations, technical standards, special tax provisions, licensing requirements, and investment commitments. Other obstacles include foreign exchange regulations, national security and privacy laws (which particularly affect international data-processing services) and Government monopolies (e.g. in aviation and radio). The General Agreement on Tariffs and Trade (GATT) has

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1/ "Recent Changes in Trade Policy," OECD Observer, July 1981.

2/ According to The Economist (July 11, 1981): Services trade "increased by 24 percent in value in 1979 . . . almost double the previous year's growth, and much faster than the increase in trade in goods. Investment income was still the largest single category of invisible earnings." The Economist estimates that the value of world services trade was $448 billion in 1979.

aimed at liberalizing international trade in goods, but as yet, few of the problems relevant to trade in services are subject to GATT discipline. 1/

Setting the stage for multilateral negotiations.--In recognition of the importance of services trade, the United States and its OECD partners continued during 1980 to lay the foundation for multilateral discussions in the GATT on services trade issues. Though the OECD is not a negotiating body, agreement on principles for services trade in the OECD could serve as the basis for broader negotiations in the GATT or some other suitable forum. The object of such talks, from the U.S. point of view, would be to establish a set of rules of conduct for services trade similar to those applicable to trade in goods. Furthermore, a framework to enforce the "ground rules" would be created. Procedures for regular multilateral consultations, dispute settlement, and enforcement of agreements are also being considered.

OECD activity.--Since the Tokyo round, work on issues relating to trade in services has continued in the OECD. So far, these activities have been largely limited to the collection of information on obstacles and other problems encountered in international services trade.

Certain aspects of services trade are already dealt with in three OECD codes. The significance of these codes is substantially lessened, however, by the absence of enforcement procedures. The OECD "Code of Liberalization of Current Invisible Operations" places some limits on national restrictions on services. However, the many reservations and exceptions to the code limit its effectiveness. In addition, some service industry trade comes within the purview of the OECD "Declaration on International Investment and Multinational Enterprises" and the "Code of Liberalization of Capital Movements."

OECD action in 1980.--The 1980 OECD Trade Declaration gave new impetus to the efforts of the Organization to reduce obstacles to services trade. The OECD has several projects under way that are designed to pinpoint key issues in services trade and to start discussion on general goals for services negotiations. A comprehensive examination of barriers to trade in services is being conducted by the Trade Committee. The Committee is focusing on four sectors important in international trade: insurance, banking, maritime transport, and construction/engineering. A study of the construction and engineering sector was made during 1980. 2/ The United States submitted its answers to a survey on construction trade in May of 1980. The other three sectors (insurance, banking, and maritime transport) are also being surveyed. In the fall, the United States submitted a long list of obstacles in a number of service industries.

The Committee on Capital Movements and Invisible Transactions (CMIT) will also review the "Code of Liberalization of Current Invisible Transations" to suggest possible revisions in order to make it more effective. The Working Party on Information, Computer and Communications Policy of the Committee on

1/ Services that are incidental to trade in goods are dealt with in some of the codes of conduct negotiated during the Tokyo round.

2/ The studies are being undertaken with the help of the OECD Maritime Transport Committee, the Insurance Committee, and the Committee on Capital Movements and Invisible Transactions.

Science and Technology Policy (CSTP) is studying the implications of data flows. (The United States had discussions with Canada, Mexico, and Japan on telecommunications issues during 1980. For further information, see ch. I of this report.)

U.S. policy.--The United States is the leading services consumer and provider in the world (Japan is the second largest). Services have become an important component of U.S. exports: they accounted for about a third of all U.S. exports in 1980. 1/ The service sector employed 70 percent of the U.S. work force in 1980, (see fig. 3) and accounted for about two-thirds of GNP in 1979. As figure 3 shows, U.S. service employment has continued to grow and agricultural employment has been steadily dropping during the past 50 years, and manufacturing jobs have leveled off.

The United States is taking the lead in giving services trade issues high visibility in the OECD and the GATT. The United States has used the same sort of private-sector advisory committee structure that it used during the Tokyo round to provide advice on services trade and to develop a centralized commercial policy focus. 2/ An Industry Sector Advisory Committee (ISAC) on Services has been created, as well as a high-level Services Policy Advisory Committee (SPAC), composed of representatives from the private sector and organized labor. The Government's interagency Trade Policy Staff Committee (TPSC) has formed a Subcommittee on Services. Through these channels, the United States brings together business, consumer, government, and labor interests. During 1980, the TPSC worked to formulate a list of U.S. negotiating goals for multilateral discussions on trade in services.

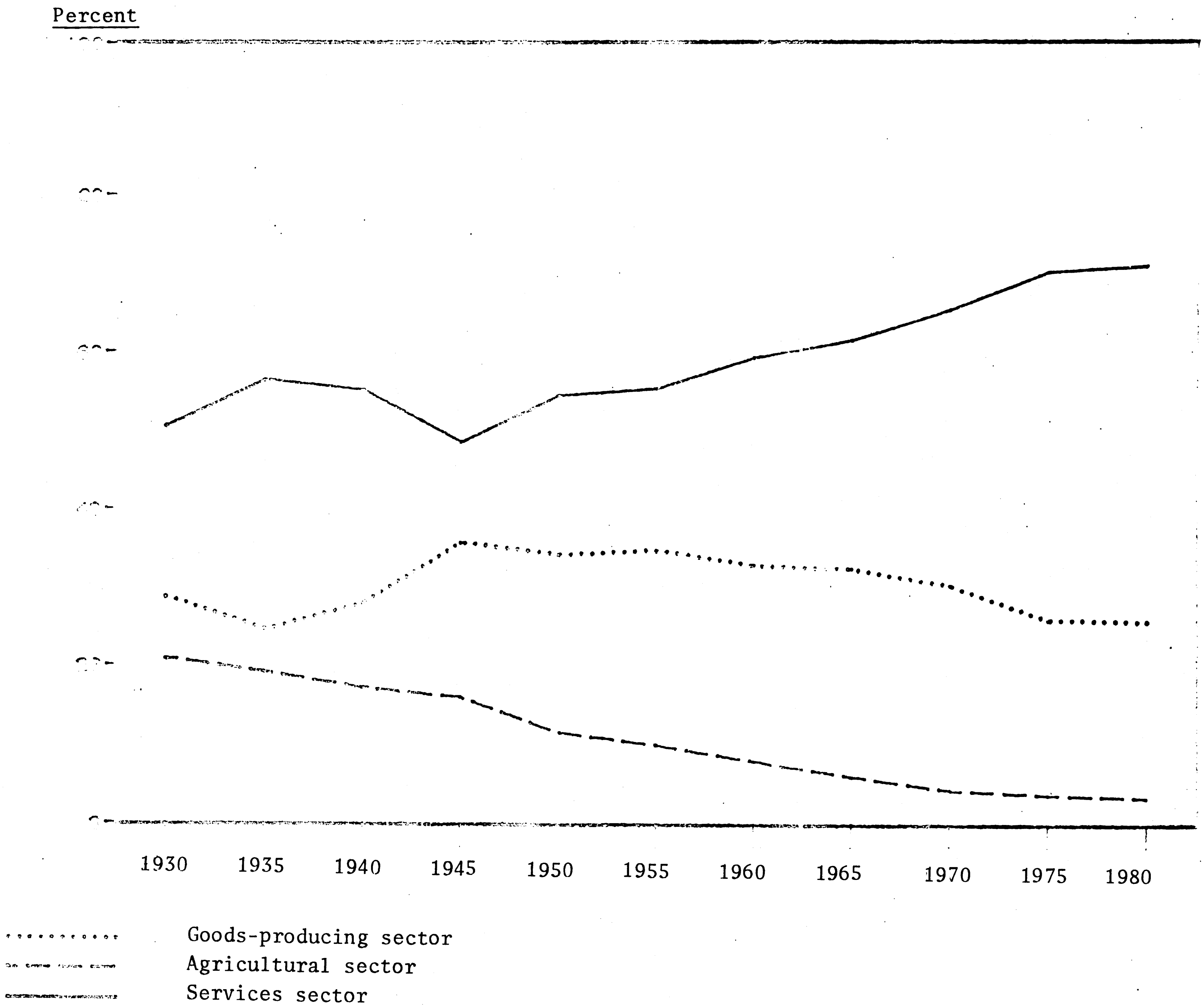
One difficulty in negotiating the liberalization of services trade is that some of these industries are among the most heavily regulated in many countries. For example, insurance companies wishing to offer policies in a country are often required to establish themselves permanently there and to retain a specified percent of their assets in the country to ensure that consumers will be able to collect on claims. Regulations like this tighten the control by the host government on the kinds of services and conditions of sale that may be offered by foreign service firms. Legislation was introduced in the U.S. Senate during the latter half of 1980 that would provide the basis for a U.S. Government study and action on problems faced by the service industry in their foreign operations. Hearings on this bill (S. 3003) were held on September 24 and 25, 1980.

GATT action in 1980.--At the close of the Tokyo round, the Contracting Parties agreed to look at services trade issues in the future, and made a general commitment to begin activity in the OECD. Already, some aspects of trade in services connected with the sale of goods are covered by some of the Tokyo round codes of conduct. The Consultative Group of 18 in the GATT began a preliminary discussion of service trade problems in 1980.

1/ The largest component of U.S. service receipts in the balance of payments is repatriation of profit on U.S. investment abroad.

2/ The Advisory Committee for Trade Negotiations (ACTN) is a Presidentially appointed committee composed of 45 representatives from a variety of U.S. interests--labor, industry, consumers, and the general public. Each sector of the economy is represented by its own committee (e.g. the Industry Sector Advisory Committee on services).

Figure 3.--Percentage distribution of U.S. employment, by sectors, specified years, 1930 to 1980



Source: Compiled from official statistics from the U.S. Bureau of Labor Statistics.

Future outlook.--The United States is determined to continue efforts to bring international Services trade under a set of rules that can be enforced through a multilateral body such as the GATT. U.S. efforts are now concentrated on identifying services issues and on starting discussion on ways to handle problems. Developing some international consensus in the OECD on the need for discipline is also an important part of the U.S. strategy on Services trade.

Trade-related investment issues

Relevance of investment policy to the trade agreements program.--Along with restrictions on trade in Services, the trade-distorting effects of governmental restrictions on international direct investment have been placed high on the U.S. trade policy agenda for the 1980's. 1/ As the world's leading international investor, the United States is naturally concerned with the treatment of U.S. assets and enterprises abroad, either by individual foreign governments or in the development of multilateral frameworks of rules for international investors. Beyond this, however, is a growing appreciation that present investment decisions--which may be influenced by governmental actions--may create future trade problems. 2/ The relevance of international direct investment policy to the U.S. trade agreements program was recognized in 1980 when the Office of the United States Trade Representative was assigned major responsibility for international negotiations in this area. 3/ During the year, the USTR initiated an interagency review of U.S. policy on international investment incentives and so-called "performance requirements," 4/ with a view toward developing a strategy for bilateral and multilateral trade agreements action on these issues in the near future. 5/

The ultimate goals of U.S. policy in the investment area may require multilateral negotiation of a contractual international arrangement--perhaps like the GATT. In 1980, though, the preconditions for initiating such

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1/ United States Trade Representative Askew's testimony on U.S. trade policy before the House Ways and Means Committee, Trade Subcommittee, June 26, 1980.

2/ The impact of investment issues on trade policy was forcefully illustrated by an announcement by Canada in October 1980 of a proposed National Energy Program (NEP). See ch. IV of this report for a discussion of U.S. concerns with the NEP.

3/ The President's Reorganization Plan No. 3, effective Jan. 1, 1980, assigned to USTR lead or coordination responsibilities in certain areas of international investment policy.

4/ A performance requirement is a condition--e.g., that a specified percent of the output of a plant be exported--attached by a host country to the granting of permission to a firm to invest or operate in that country.

5/ Ambassador Askew, op. cit., p. 17.

negotiations--an international consensus on the nature of the problem and on need for new rules--did not yet exist. Because the OECD provides an unrestricted forum for study and discussion of issues between countries in similar economic circumstances, it is well suited to serve as the focus of U.S. efforts to develop the preconditions for future international investment negotiations. 1/

OECD work on international direct investment.--In June 1976, after 18 months of negotiation, the Council of the OECD adopted a Declaration and 3 accompanying Decisions on international investment and multinational firms. The Declaration and Decisions: (1) recommended guidelines of business practice for multinational enterprises; (2) established procedures for consultations on the guidelines; (3) recommended that Organization members apply "national treatment" 2/ to foreign-controlled enterprises operating in their territories; and (4) provided for consultations within the CIME on measures (incentives or disincentives) that affect the flow of international direct investment. A formal review of the Declaration and the Decisions was scheduled for 1979.

The review took place at the June 1979 Council meeting and confirmed that the investment Declaration and Decisions had proved their usefulness. Following this, the CIME initiated follow up work in several areas covered by these instruments. Of particular interest to the United States was a medium-term work program, carried out within the CIME Working Group on International Investment Policies, on international investment incentives and disincentives (including performance requirements). 3/ During 1980, the Working Group focused on cataloging and describing investment incentive practices, based on a survey of member countries. This work was scheduled to be completed in early 1981, at which time it was expected that the Group would turn its attention to evaluating the economic implications of investment incentives. The United States has taken a leading role in the development of this work.

1/ Efforts in the investment area are not confined to the OECD, though: the United States has proposed that the GATT Consultative Group of 18 make a survey of investment incentives modeled on the nontariff measure inventory undertaken before the Tokyo round MTN.

2/ National treatment was defined in the Declaration as "treatment under their (member states') laws, regulations, and administrative practices, consistent with international law and no less favorable than that accorded in like situations to domestic enterprises."

3/ The scope of this work was limited to practices of OECD members, although it was recognized that gathering information on nonmembers' policies towards investments might be very productive.

Other work on international direct investment issues undertaken by CIME during 1980 included a joint special session with the OECD Committee on the CMIT. 1/ The special theme for discussion at this session was the use of performance requirements and screening conditions applied by host countries to the authorization of inward direct investment or to the granting of investment incentives.

The Steel Committee

The OECD Steel Committee was established in 1978 to deal with the problems of world overcapacity in steel, unemployment and idling of productive facilities, and the consequent introduction of restrictive measures on steel imports by several countries. About the same time that the U.S. trigger-price mechanism (TPM) was established, the EC and Canada introduced similar base price systems for steel products. In light of these actions, the United States sought to create a multilateral forum to discuss the problems of the steel industry worldwide. Subsequently, the OECD Steel Committee was formed with the aim of keeping international steel trade as unrestricted and free of distortion as possible. Primarily a consultative body, the Steel Committee provides a forum where participants can exchange data on steel trade, market conditions, and government actions. The Committee facilitates international cooperation in seeking solutions to cyclical and structural problems of steel industries. Among the initial commitments of Committee participants were two that dealt with price guidelines, such as are embodied in the TPM and in the EC's "Davignon Plan." Members of the Committee agreed that price guidelines should be in harmony with the GATT antidumping code, and these guidelines should "neither exceed the lowest normal prices in the supplying country, . . . nor exceed the full cost of production (including overhead costs plus profit) in supplying countries." Such guidelines may include delivery costs and import duties if the importing country establishes guidelines on a delivered basis.

For the OECD countries in particular, 1980 underscored the persistent nature of the problems besetting their steel industries. Consumption fell by 7 percent and production by 8 percent, effectively wiping out the gains registered in 1978 and 1979. The outlook for 1981 is for a further deterioration in steel consumption and production, most acutely in the EC.

In its review of the 1980 steel market situation, the Steel Committee stated, "The decline in steel production has mainly reflected reduced demand in the major OECD countries and only to a limited extent has been due to reduced export demand from outside the area. The fall in the market first occurred in the United States in the second quarter, when within a few months, steel consumption fell by 20 percent. By July the operating rate was only 50 percent of capacity. The lower demand has been attributed to reduced steel usage in the economic recession and to the running down of stocks. Apart from

1/ The CMIT is particularly responsible for questions relating to the authorization of new direct investment, since that Committee has a mandate to implement the OECD's Code of Liberalization of Capital Movements.

1975 when there was an exceptional collapse of the market, the downturn already experienced in 1980 has been the sharpest since the Second World War for the OECD area as a whole. There has been a fall in steel demand from outside the OECD area, notably from China and the Middle East. In these circumstances, the United States believes that the OECD Steel Committee is proving its value as a crisis management tool. Since its establishment in 1978, the Committee's 21 participating countries have met four or five times a year in Paris to discuss a broad range of steel industry problems. These consultations have served to establish the principles that crisis trade measures should be limited and temporary, quantitative restrictions cannot remedy the fundamental problems of the industry, and the burden of adjustment should not be shifted onto other producing nations. The Committee has used its regular discussions to defuse tensions and to moderate policy responses to them.

Under the Chairmanship of then Deputy U.S. Trade Representative Robert Hormats, the Commmittee contributed to managing the tensions arising from the filing of antidumping cases in the United States, suspension and modification of the trigger-price mechanism, and the introduction of new crisis measures in the EC. The Committee's Working Party instituted a program in 1980 to report on the process of structural change in the steel industry. In 1981, the Committee is expected to focus its attention on European subsidization and restructuring efforts.

United States Participation in the United Nations Conference on Trade and Development

Introduction

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964, in response to a U.N. General Assembly resolution entitled "International Trade as a Primary Instrument for Economic Development." The substance of the resolution was that growth in exports and earnings of foreign exchange were essential for more rapid economic development of developing countries. The preamble to UNCTAD's charter (the Final Act) 1/ indicates that UNCTAD seeks an improved system of international economic cooperation, to eliminate the division of the world into areas of poverty and plenty. The preamble urges the international community to ". . . combine its efforts to ensure that all countries . . . enjoy the benefits of international trade for their economic development and social progress."

UNCTAD's headquarters are in Geneva, and its governing body is the Trade and Development Board (TDB). Although the TDB makes policies, those having a longer term thrust are made at UNCTAD's conferences (held every 3 or

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1/ The United States was a member of the Drafting Committee for the Final Act.

4 years). 1/ Among other things, the conferences establish direction for the Secretariat. The TDB holds two or more regular sessions per year and an occasional special session. The Board's various committees meet every 2 years.

UNCTAD's membership is divided into several groups of countries: Group B consists of developed countries that have market economies; Group D consists of developed countries that have nonmarket economies; and the Group of 77 2/ consists of developing countries, irrespective of type of economy. China and some other countries are not members of any group. The United States, a member of Group B, participates in plenary meetings, as well as in multilateral and bilateral consultations.

UNCTAD's areas of concern

UNCTAD's programs, discussions, and negotiations cover a wide range of complex issues of interest to developing countries. The following is an illustrative list of trade-related subjects that have been on the agenda of UNCTAD and TDB sessions:

1. Measures to increase trade between developed and developing countries:
    a. The Generalized System of Preferences (GSP).
    b. The reduction of trade barriers.
2. Structural adjustment of national economies.
3. The negotiation and implementation of international commodity agreements.
4. Increased processing of raw materials in developing countries.
5. Restrictive business practices.
6. Economic cooperation among developing countries.
7. Trade between countries having different economic and social systems.
8. The need for developed countries to take into account the development needs of developing countries in connection with the formers' administration of their countervailing duty and antidumping measures.
9. Improvement in the terms of trade of developing countries.
10. Adjustment of financial obligations of developing countries in connection with official development assistance.
11. Expansion of credit facilities for developing countries.
12. Technology transfer.

1/ UNCTAD held its fifth conference (UNCTAD V) in 1979. It will hold UNCTAD VI in 1983.

2/ Annex B of the Final Act includes the Joint Declaration of the Seventy-Seven Developing Countries. Since that declaration, the group has been known as the Group of 77 or G-77, even though it has grown to include about 100 members.

The issues of particular relevance to this report are (1) measures to increase trade between developed and developing countries (particularly the GSP), (2) UNCTAD's work on protectionism and structural adjustment, and (3) the negotiation and implementation of international commodity agreements. A brief consideration of these issues follow.

GSP and other preferences vs. liberalization on an MFN basis.--Under their Generalized System of Preferences (GSP), virtually all of the members of Groups B and D give some form of preferential tariff treatment to imports from developing countries. 1/ In order to further the implementation, maintenance, improvement, and utilization of GSP, the TDB has established a Specialized Committee on Preferences. At sessions of the TDB and of this committee, the developing countries have expressed their concern that the MFN tariff-rate reductions that were agreed to in the recently completed Tokyo round negotiations are eroding the margins of preference enjoyed by developing countries under the various GSP systems, thus reducing the effectiveness of GSP as an instrument for promoting the economic development of those countries.

At the TDB's twentieth and twenty-first sessions, held in 1980, the United States reiterated its position that the developing countries have much to gain from the reductions of MFN rates of duty. Whereas GSP treatment is temporary and conditional (based on competitive-need criteria), MFN-rate reductions bound in the GATT are permanent and contractual. At the twentieth session, the United States indicated that: (1) the main purpose of the Tokyo round had been to liberalize trade on a worldwide basis; (2) developed countries had reduced their tariffs by an average of more than 30 percent despite unfavorable conditions in the world economy; (3) developing countries' benefits from the Tokyo round far outweighed any potential loss attributable to the narrowing of margins of preference; (4) the United States had made duty reductions on tropical products as part of its package of tariff concessions; (5) the United States had advanced the effective date of duty reductions on various products of special interest to developing countries, and had made immediate tariff reductions for the least developed countries; and (6) the Tokyo round's agreements on nontariff measures (NTM) recognized, among other things, that subsidies and the protection of infant industries of developing countries were valid implements for their development programs. The United States further stated that the nontariff measures codes negotiated in the Tokyo round will benefit both developed and developing countries by furthering a reasonably open international trading system.

The spokesman for Group B expressed satisfaction that several developing countries were participants in the GATT NTM codes and agreements, and he advocated the widest possible participation. He indicated that the countries of Group B continued to support priority treatment in areas of particular

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1/ For a discussion of the background of GSP and of the operation of the U.S. GSP system in 1980, see ch. V of this report.

concern to developing countries in the GATT work program. Also at the TDB's twentieth session, the representative of UNCTAD's Secretary-General recalled that UNCTAD's Committee on Manufactures had urged that maximum possible participation in the MTN codes and agreements should be pursued by facilitating accession by developing countries.

Protectionism and structural adjustment.--Through resolution 96(IV), adopted at UNCTAD's fourth session, and resolution 131(V), adopted at its fifth session, UNCTAD called upon the developed countries to transfer those industries that were less competitive internationally to developing countries. This industrial redeployment would lead ". . . to structural adjustments in the former countries and a higher degree of utilization of natural and human resources in the latter. Such policies may take into account the economic structure and the economic, social and security objectives of the developed countries and the need for such industries to move into more viable lines of production or into other sectors of the economy."

At the TDB's twenty-first session, the spokesman for Group B noted that in 1960-77, ". . . real growth in manufacturing . . . had been 1.4 times higher in the developing countries than in the developed market-economy countries . . . ." During this period, developing countries' exports of manufactured goods had grown by 11 percent annually, in real terms, compared with a world average of 8.8 percent.

The spokesman further noted that the industrial exports of developing countries to the Socialist countries of Eastern Europe (members of Group D) remained at an extremely low level, and that the latter countries had not done enough to stimulate the growth of developing countries' exports. He also noted that, in recent years, trade in manufactures among developing countries had stagnated. The spokesman for Group B claimed that the developed countries, rather than following a pervasive trend toward protectionism, had concluded ". . . the most comprehensive round of trade negotiations ever undertaken in GATT" at a time of economic difficulties and widespread unemployment.

The related issues of protectionism and structural adjustment continue to be of concern to UNCTAD. It is the position of the United States that developed countries should not be expected to shed industries in order for developing countries to move up the scale of economic development. The United States also emphasizes that developing countries, too, need to make structural adjustments in their economies if they are to maximize the speed of their development processes.

The Integrated Program for Commodities and the Common Fund.--For many years, developing countries have complained that their terms of trade are deteriorating. They have felt that, while there has been a long-run upward trend in the prices of manufactured goods exported by the industrialized countries, the prices of the developing countries' leading exports--raw materials and other primary commodities--have not kept pace with those of manufactures, or have even declined.

At UNCTAD's first conference, its Secretary-General recommended the creation of an integrated program using international commodity agreements to bolster the prices of primary commodities, and to transfer to the developing countries the "extra income" that the developed countries had been receiving because of the deterioration of the developing countries' terms of trade.

At the Seventh Special Session of the United Nations General Assembly in September 1975, the United States proposed establishing separate forums for individual commodities, where exporting and importing countries could discuss issues of mutual concern. The United States supported the use of buffer stocks to moderate commodity price fluctuations and expanded IMF financing for such stocks. The United States also proposed schemes for financing the exploitation and extraction of raw materials and for helping developing countries gain access to developed countries' markets. Throughout the proceedings, the United States reiterated its belief in free markets.

One of the main results of the General Assembly's Seventh Special Session was an agreement to conduct negotiations on an Integrated Program for Commodities (IPC) at UNCTAD IV and in other intergovernmental forums. At UNCTAD IV in 1976, the Conference unanimously adopted Resolution 93(IV), that called for an Integrated Program for Commodities to improve "the terms of trade of developing countries and in order to eliminate the economic imbalance between developed and developing countries." The commodity coverage of the IPC "should take into account the interests of developing countries in bananas, bauxite, cocoa, coffee, copper, cotton and cotton yarns, hard fibers and products, iron ore, jute and products, manganese, meat, phosphates, rubber, sugar, tea, tropical timber, tin, vegetable oil, including olive oil, and oilseeds, among others, it being understood that other products could be included . . . ."

Of the 18 commodities enumerated in the IPC, four commodities--coffee, cocoa, sugar, and tin--are the subjects of international agreements not related to the IPC. The International Tin Council, however, plans to become associated with that program. As of yearend of 1980, the International Natural Rubber Agreement was the only international commodity agreement to have been concluded under the IPC. Although UNCTAD has sponsored separate meetings or negotiations on cotton, copper, tea, jute, tropical hardwoods, and vegetable oils, it seems unlikely that formal international agreements will be concluded for all of those commodities.

The centerpiece of UNCTAD's Integrated Program for Commodities is the Common Fund, which was conceived as a device to support the financial operations of international commodity organizations. The members of UNCTAD reached a consensus on the establishment of the Common Fund on June 27, 1980. The United States signed the Common Fund Agreement on November 5, 1980. 1/

The framework resolution for the Fund calls for two accounts or "windows." The first account would pool the resources of international commodity organizations to finance the acquisition and storage of buffer

1/ The United States has not made a contribution to the Common Fund. Moreover, the Reagan Administration will not initiate the ratification process before the United States has made a contribution.

stocks. Government contributions totaling $400 million would constitute the first account. If the budget requests are approved by Congress, the United States will contribute a total of $73.85 million during fiscal years 1983-85 to the first account only. The second account, to be funded by voluntary contributions for which a goal of $350 million has been set, would finance research and development activities. As of yearend 1980, the Carter Administration was opposed to making a contribution to the second account. 1/

Voting shares among members of the Common Fund will be distributed with the Group of 77 allocated 47 percent; Group B, 42 percent; Group D, 8 percent; and China, 3 percent. Major decisions will require a three-quarters majority vote and other decisions will require a two-thirds or simple majority vote, depending on the importance of the issue.

The Common Fund's Preparatory Committee held its first meeting in October 20-24, 1980, and agreed to reconvene during February 9-13, 1981.

U. S. Participation in International Commodity Agreements

Agreements governing international trade in specific commodities have been used for many years in a wide variety of situations. In general, agreements with "economic" provisions--those that attempt to control commodity prices directly--have used either buffer stocks or production or export quotas to limit the ammount of a commodity available on the world market. Also, consumer countries that are members of such agreements may agree not to import from nonmembers. The goals of commodity agreements may be price and supply stabilization, or may include actual improvement in the producers' terms of trade by maintaining in the medium or long-term prices that are above those set by the market alone. Improving the terms of trade of developing countries is an explicit goal of the UNCTAD's Integrated Program for Commodities. The United States has been skeptical of both the desirability and the feasibility of maintaining an above-market price in the long term for most commodities. U.S. participation in several commodity agreements and negotiations has been motivated primarily by foreign-policy considerations. 2/

During 1980, the United States was a signatory to five commodity agreements: coffee, natural rubber, sugar, tin, and wheat. The United States also participated in discussions to examine the possibility of commodity agreements covering cocoa, copper, cotton, jute, manganese, and tea. The main provisions of agreements in six key commodities--coffee, cocoa, natural rubber, sugar, tin, and wheat--and market developments during 1980 are discussed in the sections that follow.

1/ The Reagan Administration shares this view.

2/ U.S. Department of State, Bureau of Public Affairs, Washington, D.C., International Commodity Agreements: New Wave or Ebb Tide?, Special Report No. 83, May 1981.

Coffee

The International Coffee Agreement of 1976 (ICA) entered into force for the United States on August 1, 1977. It is scheduled to expire in 1982. At yearend 1980, there were 68 member countries, of which 44 were producer members (net exporters) and 24 were consumer members (net importers). The Agreement is administered by the International Coffee Organization (ICO), under rules established by the International Coffee Council. The ICO has an executive board consisting of eight exporting members and eight importing members that works under the direction of the Council, and may have certain powers delegated to it by a two-thirds majority vote of the Council.

Among the stated objectives of the Agreement are: (1) the achievement of long-term equilibrium between production and consumption at prices remunerative to producers and fair to consumers; (2) the stabilization of supplies and prices; (3) economic growth and development of member countries; (4) increased purchasing power of coffee-exporting countries; (5) the promotion of coffee consumption; and (6) the facilitation of international cooperation in connection with world coffee problems.

Although the ICA has no provision for a buffer stock as a tool to stabilize prices, it does contain an incentive for the holding of stocks by exporting members. It also provides for export quotas, whose activation is based on a system of formulas under article 33 of the Agreement. The imposition of export quotas is not required unless the 20-day moving average of the composite indicator price reaches the trigger price of $1.35 per pound. (On Oct. 1, 1980, the trigger price was increased from 77.5 cents per pound.) During 1980 and the preceding years of the 1976 ICA, the composite indicator price was based on the ex-dock New York prices of "Other Mild Arabica" and Robusta-type green coffee. 1/

If the 20-day moving average of the composite indicator price goes below $1.35 pound, export quotas must be reduced. There can be three reductions in a 12-month period. If the moving average goes above $1.35 per pound, export quotas may be increased in stages. When export quotas are in effect, the 20-day moving average of the composite indicator price must be above $1.55 before the quotas can be lifted.

1/ Owing to reduced consumption of coffee in the United States (caused by increased substitution of beer and soft drinks) and increased consumption of coffee in the European Community, the ICO has decided to change the composition of the composite indicator price. The new indicator is based on a composite of the ex-dock New York and Hamburg-Bremen prices of "Other Mild Arabica" and the ex-dock New York and Marseilles-LeHavre prices of Robusta-type green coffee. The ex-dock price of a commodity includes all costs of making the goods available at dockside of the port(s) named in the price quotation.

The monthly average composite indicator prices during October 1976 (when the present International Coffee Agreement went into effect) through December 1980, are shown in the following table.

Table 5.--Green coffee: ICO monthly average composite indicator prices, on the basis of the 1976 agreement, by months,1976-80

(In U.S. dollars per pound)

Month	1976	1977	1978	1979	1980
January	-	2.1761	1.9165	1.3093	1.6562
February	-	2.5493	1.8608	1.2776	1.6342
March	-	3.0485	1.6637	1.3276	1.7714
April	-	3.1496	1.6168	1.4022	1.7186
May	-	2.7741	1.5286	1.4874	1.8230
June	-	2.4305	1.5982	1.9099	1.7522
July	-	2.0900	1.3017	1.9978	1.5181
August	-	2.0136	1.3334	1.8970	1.3402
September	-	1.9578	1.5112	1.9836	1.2542
October	1.6262	1.7248	1.5189	1.9297	1.2579
November	1.7963	1.8213	1.4521	1.9219	1.1561
December	2.0554	1.8570	1.3158	1.8563	1.1987
Average	1.8260	2.2994	1.5515	1.6950	1.5067

Source: Compiled from ICO data reported by the U.S. Department of Agriculture, Foreign Agricultural Service.

Export quotas for the coffee year October 1980-September 1981 entered into force at the beginning of that 12-month period, and they were allocated by calendar quarter, by exporting member, and by type of coffee. The initial global annual quota was 58.2 million bags. 1/ As a result of subsequent adjustments, the revised annual quota was 55.1 million bags as of January 1, 1981.

When the ICO's rules for managing its system of export controls went into effect on November 1, 1980, the United States lacked statutory authority to impose (1) limits on imports of coffee and (2) the documentary requirements of the ICO's system of controls. Members of the ICO feared that the absence of U.S. regulations concerning the entry of coffee for consumption would impair the effectiveness of the ICO's system of export quotas. Enabling legislation had been delayed because the U.S. Congress had objected to the activities of Pancafe, the trading arm of the Bogota Group (certain Latin American coffee-exporting countries). After the Group agreed to phase out these activities, the Congress enacted and President Carter signed the International Coffee Agreement Act of 1980 (P.L. 96-599) on December 24, 1980. P.L. 96-599 authorizes the President to carry out and enforce the provisions of the ICA, and to take such other action as he may deem necessary to implement the obligations of the United States. In

1/ Each bag weighs 60 kilos.

addition, the statute has a consumer-protection provision, and it requires the President to submit to the Congress an annual report on the International Coffee Agreement, 1976.

On March 12, 1981, the President issued Executive Order 12297, in which he delegated to the United States Trade Representative (USTR) the functions that had been delegated to the President by P.L. 96-599. In carrying out these functions, the USTR is to consult with the Secretaries of Agriculture and State. Executive Order 12297 also authorizes the USTR to "redelegate some or all of those functions to the head of another Executive Agency with the consent of the head of such agency."

Cocoa

Early in 1979, the United Nations Cocoa Conference, 1979, was convened to renegotiate the International Cocoa Agreement (ICCA), 1975, 1/ which was scheduled to expire on September 30, 1979. However, since the 1979 negotiations did not reach agreement, the ICCA, 1975, was extended to March 31, 1980. Discussions and negotiations were held at various times in 1980, and they were successfully concluded on November 14, 1980. The Third ICCA was scheduled to enter into force on April 1, 1981, but the slow pace of acceptances, approvals, and ratifications delayed the effective date to August 1, 1981.

The United States has never been a member of the International Cocoa Organization (ICCO), but it participated actively in the negotiating sessions that produced the new agreement. As the new agreement relies on buffer stock operations to influence the market prices of cocoa beans, the buffer stock manager must be able to finance acquisitions during periods of persistently depressed prices. 2/

During the negotiations, the United States was concerned that the conferees failed to give adequate consideration to the question of funding buffer stock operations. The United States sought support for full financing, and stressed eventual linkage with UNCTAD's Common Fund. Besides stressing a linkage among market prices, the price adjustment mechanism, and means for financing the buffer stock, the United States also considered supply assurances and terms and conditions for liquidation of the buffer stock to be key issues.

For purposes of the agreement, the price of cocoa beans is determined by reference to a daily price and an indicator price. The daily price is the daily average "of the quotations for cocoa beans of the nearest three active

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1/ The two C's in the initials for the International Cocoa Agreement (ICCA) and the International Cocoa Organization (ICCO) are used to distinguish them from the International Coffee Agreement (ICA) and the International Coffee Organization (ICO), respectively.

2/ In the previous ICCA, there was an additional means for influencing prices, the use of export quotas. Such controls were dropped in ICCA, 1980.

future trading months on the New York Cocoa Exchange at noon and on the London Cocoa Terminal Market at closing time." The indicator price is "the average of the daily prices over a period of 10 consecutive market days."

One of the objectives of the ICCA, 1980 is to stabilize the indicator price between $1.10 and $1.50 per pound. As in the 1972 and 1975 agreements, the 1980 agreement sets a maximum limit on the buffer stock of 250,000 metric tons, but if the 1980 agreement is extended from a 3-year to a 5-year period, the limit can be raised to 350,000 metric tons.

If the indicator price is $1.10 per pound (lower intervention price), the buffer stock manager is to start buying cocoa beans. If the indicator price is $1.50 per pound (upper intervention price), he is to start selling cocoa beans, but stop selling when the indicator price falls within the buffer stock price range. The lower intervention price is reduced to $1.06 per pound when 100,000 metric tons of cocoa beans are in the buffer stock, and to $1.02 per pound when 175,000 metric tons have been accumulated. The width of the buffer stock price range is maintained at 40 cents per pound. For example, if the lower intervention price is reduced from $1.10 per pound to $1.06 per pound, the upper intervention price must be reduced from $1.50 per pound to $1.46 per pound.

At yearend of 1980, there was no buffer stock, but the ICCO, with a new agreement, would inherit a fund of about $230 million from its predecessor, the 1975 agreement. The U.S. negotiators agree with the following analysis of the Financial Times World Commodity Review, which indicates that if, through borrowing, the ICCO's financial assets were increased to $330 million, and if the ICCO could buy cocoa beans at an average of $1.00 per pound, the buffer stock manager could buy only 150,000 metric tons of cocoa. This amount was smaller than the global surplus of 158,000 metric tons of cocoa beans produced in the 1979/80 cocoa year. At the end of that year, the cumulative surplus was 650,000 metric tons of beans. As the buffer stock acquisitions are to be financed principally by a levy of 1 cent per pound on exports, the levy could be expected to produce about $22 million per year, based on annual world exports of 1 million metric tons (approximately the annual average for 5 recent years). Even if annual world trade were to treble, the present export levy alone would fall far short of building adequate financial resources for the ICCO, taking administrative and storage costs into account.

Natural rubber

Synthetic rubber, made from costly petroleum, cannot be substituted for natural rubber in certain uses, notably in heavy-duty, aircraft and radial tires. Consequently, natural rubber is among the strategic and critical materials in the National Defense Stockpile. As of early 1981, the stockpile contained only 119,000 long tons of natural rubber compared with the Federal

Emergency Management Agency's goal of 850,000 long tons. 1/ Since the domestic production and use of guayule rubber 2/ are still in the pilot stage, the United States is almost entirely dependent on imports for natural rubber.

Like many other raw materials, natural rubber is a product of developing countries, and in this case, developing countries account for virtually all of the world's production and net exports. The developed countries (those with market economies plus those with nonmarket economies) account for about 80 percent of the net imports of natural rubber. Because of the importance of natural rubber in international trade between developing and developed countries, UNCTAD convened a negotiating conference on natural rubber, which held sessions in 1978 and 1979. At its 10th plenary meeting, the Conference established the text of the International Natural Rubber Agreement, 1979, on October 6, 1979.

The International Natural Rubber Agreement (INRA) is the first new commodity agreement to have been concluded under UNCTAD's Integrated Program for Commodities. INRA's term is 5 years, and it can be extended for 2 years. It entered into force provisionally for the United States on October 23, 1980. The United States signed it on January 8, 1980, and deposited ratification at the United Nations on May 28, 1981.

The INRA provides for the International Natural Rubber Organization (INRO), which includes the International Natural Rubber Council (INRC), an executive director, a buffer stock manager, and other staff. The maximum permissible size of the buffer stock is 550,000 metric tons, divided between a "normal stock" of 400,000 metric tons and a "contingency stock" of 150,000 metric tons.

The operation of the buffer stock is governed by a daily indicator price, which is a composite weighted average of daily official current-month prices on the Kuala Lumpur, Singapore, London, and New York Markets. 1/ The INRA also specifies the types or grades of natural rubber whose prices go into the composite price, with equal weighting for the prices of the types or grades included.

1/ At the end of October 1980, U.S. commercial stocks of natural rubber were about 127,000 long tons. During 12 months ending October 1980, U.S. consumption of natural rubber was about 575,000 long tons out of a world total of 3,774,000 long tons.

2/ The guayule plant is native to the southwestern United States and northern Mexico. Guayule rubber production has been one of the subjects of discussion in bilateral meetings on arid zones.

3/ All price quotations are converted into f.o.b. Malaysian/Singapore port prices in "Malaysian/Singapore cents."

The two extremes of the buffer stock price range are 150 and 270 Malaysian/Singapore cents per kilo. 1/ If the composite indicator price is less than 150 Malaysian/Singapore cents per kilo, the Buffer Stock Manager must buy natural rubber until the buffer stock reaches its maximum level of 550,000 metric tons, if necessary, to (try to) prevent the indicator price from remaining below the minimum of the buffer stock price range. If the indicator price is more than 270 Malaysian/Singapore cents per kilo, the Buffer Stock Manager must sell natural rubber until the buffer stock becomes exhausted, if necessary, to (try to) prevent the indicator price from remaining above the maximum of the buffer stock price range.

This table (table 6) also shows the price range of 178.5-241.5 Malaysian/Singapore cents per kilo, which calls for no price-support operations. Price ranges below 178.5 cents trigger optional or mandatory action to counter falling prices. Price ranges above 241.5 cents trigger optional or mandatory action to counter rising prices.

The Council is empowered to revise the lower and upper indicative prices (the two extremes of the buffer-stock price range) at reviews provided for under conditions specified in article 32 of the agreement. At its first meeting, held during November 17-21, 1980, the Council did not change any of the buffer-stock price indicators.

The Council tentatively approved a $1 million administrative budget for the November 1980-December 1981 period. The U.S. share of funding administrative expenses was set at $151,000. The Council approved a statistical table of members' net exports and net imports of natural rubber, to determine members' shares of votes in the INRC. The United States share is 30.2 percent.

Also in November 1980, INRO's Committee on Buffer Stock Operations reviewed proposed rules and procedures, sources of quotations of exchange rates, time of day to be used in determining exchange rates, and the method of calculating averages.

The manager of the buffer stock is presently a U.S. citizen, and he comes from the private sector.

1/ "Malaysian/Singapore cent" means the simple average of the Malaysian sen and the Singapore cent at prevailing rates of exchange. For purposes of the INRA, 210 Malaysian/Singapore cents equal $1.00 U.S., an estimate of the average exchange rate (as projected by the U.S. Department of State) over the course of the agreement.

Table 6.--Operation of the buffer stock under the International Natural Rubber Agreement

Price support action 1/	Malaysian/Singapore cents per kilo	Agreement's term for each price
Must sell all of the buffer stock to keep the indicator price below the upper indicative price.	Above 270.0	-
Must sell a portion of the buffer stock to bring the indicator price back down to the upper trigger action price. 2/	270.0	Upper indicative price.
	261.0	Upper midway price.
	252.0	Upper trigger action price.
Option to sell a portion of the buffer stock to keep the indicator price from rising to the upper trigger price.	241.6-251.9	-
No action	241.5	Upper intervention price.
	210.0	Reference price
	178.5	Lower intervention price.
Option to buy additional stocks to keep the indicator price from falling to the lower trigger price.	168.1-178.4	-
Must buy additional stocks to keep the indicator price from falling below the lower trigger price.	168.0	Lower trigger action price.
	159.0	Lower midway price.
	150.0	Lower indicative price.
Must buy the maximum amount as provided for in the agreement (550,000 metric tons)	Below 150.0	-

1/ An average, over 5 consecutive market days, of the daily indicator price is the price used to activate price support measures.

2 In addition to sales of the normal stock, portions of the contingency stock may be sold (in the upper range) or bought (in the lower range) by special vote of the Council. If the Council does not decide on action, portions of the contingency stock may be sold by the buffer stock manager when the indicator price reaches the upper midway price; or bought when the indicator price falls to the lower midway price.

Source: Compiled from the International Natural Rubber Agreement, 1979.

Sugar

The International Sugar Agreement (ISA), 1977, became provisionally effective for the United States on January 1, 1978. The Senate gave its advice and consent to the President for ratification on November 30, 1979, and on April 22, 1980, implementing legislation was enacted to allow full U.S. participation in the agreement. The current agreement is the fifth in a series of international sugar agreements; it runs for 5 years (unless terminated sooner) and can be extended for 2 years.

The ISA has several objectives, including: (1) increased international trade in sugar to enhance the export income of developing sugar-producing countries; (2) the avoidance of excessive price fluctuations, with prices at levels deemed fair to producers and consumers, taking into account world economic conditions and fluctuations in exchange rates; (3) adequate supplies of sugar; (4) growing market acceptance in the developed countries of sugar from the developing countries; and (5) close scrutiny of developments in the use of sugar substitutes, including artificial sweeteners.

The International Sugar Organization (ISO) is the administering body for the ISA. Under the ISO, overall responsibility for carrying out the provisions of the agreement is delegated to the International Sugar Council (ISC) (composed of all members of the ISO). Votes on the Council are divided equally between net exporting and net importing members and, within each group, distributed according to a country's share of total net exports or imports (the exporting group also considers assigned basic export tonnages and total production). Votes are redistributed at the beginning of each calendar year. An executive committee, as well as other bodies such as the Stock Financing Fund, are responsible for day-to-day implementation of the agreement.

The ISA initially provided for buffer stock and export quota adjustments to maintain the free-market 1/ price 2/ of sugar within a range of 11 to 21 cents per pound. The Council is authorized to adjust the minimum and maximum prices provided that the difference between them remains at 10 cents per pound. In 1980, the Council increased the buffer-stock price range twice, making it 12 to 22 cents per pound in May and 13 to 23 cents per pound in November. The May increase remained in effect until November 1980. The November 1980 increase is scheduled for review in November 1981.

1/ The agreement defines the free market as the total of net imports of the world market except those covered by exports to the EC under the Lome Convention, those relating to Cuba's exports to Communist countries, and provisions made for certain exports by the Soviet Union and East Germany. Insulating such special arrangements, wholly or partly, from the ISA's export quotas limits the effectiveness of the agreement in influencing supplies and prices.

2/ Art. 61 of the agreement provides a method for calculating the free-market price of sugar.

The export quotas of major exporting countries are percentages of basic export tonnages (BET's), which were calculated for the 1977 agreement according to the export history of each country and estimated world net import requirements. Exporters shipping less than 70,000 metric tons of sugar per year are assigned export entitlements rather than BET's. On the basis of the November 1980 revision of the buffer-stock price range, export quotas can be used to support a minimum free-market price of 13 cents per pound. In a range of 13 to 17 cents per pound, export quotas are gradually reduced when prices are falling and gradually enlarged when prices are rising. When the prevailing price 1/ reaches 17 cents per pound, export quotas are to be removed. Because of rising prices, export quotas were suspended early in January 1980. As of the close of 1980, this suspension was still in effect.

The agreement provides that members assigned BET's are required to acquire buffer stocks up to a total of 2.5 million metric tons, with buffer stock holdings proportional to the BET's. At the beginning of 1980, buffer stock obligations totaled 2.0 million metric tons. An additional 0.5 million metric tons had been scheduled for accumulation by the end of 1981. The agreement contains sanctions for nonfulfillment of stocking obligations.

Before the 1980 revisions to the buffer-stock price range, members holding buffer stocks were obliged to release a portion of their stocks if the prevailing price reached 19 cents per pound. In the event of continued price increases, additional stocks were to be released in two installments. Despite the upward revisions in the buffer stock intervention levels (in which the 19-cent level was replaced by 20 cents and then 21 cents per pound), upward movements in the prevailing price obliged countries holding buffer stocks to release them gradually to the market, to the point that the buffer stock was exhausted by the end of 1980. 2/ Also before the 1980 revisions, when the prevailing price of sugar was below 14 cents per pound, exporting members were to replenish their stocks with the excess of their production over their export quotas. In coordination with the revisions to the buffer-stock price range, the 14-cent figure was revised to 15 cents and then 16 cents per pound.

The previously mentioned Stock Financing Fund was established to provide financial assistance to help exporting countries maintain their buffer stocks. The fund is financed by levies imposed on free-market sugar being imported into or exported from member countries. The Stock Financing Fund came into effect when the United States deposited instruments of ratification of the ISA, July 1, 1980.

1/ The prevailing price is the average of the ISA's world market price for 15 consecutive market days.

2/ This was the first time that the buffer stock became exhausted under the 1977 ISA. Buffer stock management of a commodity with a volatile price history is a difficult undertaking.

Members' concern for effective buffer stock operation is quite understandable when the volatile price history of sugar is considered. During 1960-80, for example, the monthly average price of raw sugar, f.o.b. Caribbean ports, bulk basis, ranged from 1.35 cents per pound in December 1966 to 56.14 cents per pound in November 1974. Table 7 indicates that during 1976-80 the monthly average price ranged from 7.07 cents per pound in November 1977 to 40.55 cents per pound in October 1980. Prices are greatly influenced by changes in supply since the demand for sugar is highly inelastic with respect to price.

Table 7.--Raw sugar: World market prices, as per 1977 agreement by months, 1/ 1976-80

(In U.S. cents per pound)

Month	1976	1977	1978	1979	1980
January	14.02	8.34	8.77	7.57	17.16
February	13.50	8.59	8.48	8.23	22.75
March	14.79	8.98	7.74	8.46	19.64
April	14.05	10.04	7.59	7.82	21.25
May	14.54	8.95	7.33	7.85	30.94
June	12.99	7.87	7.23	8.14	30.80
July	13.21	7.39	6.43	8.52	27.70
August	10.02	7.61	7.08	8.85	31.77
September	8.13	7.31	8.17	9.90	34.74
October	8.03	7.09	8.96	11.94	40.55
November	7.88	7.07	8.01	13.68	37.81
December	7.55	8.09	8.00	14.93	28.79
Annual average	11.56	8.11	7.82	9.66	28.66

1/ International Sugar Agreement, monthly average prices (f.o.b., Caribbean ports, bulk basis) calculated in accordance with art. 61 of the 1977 agreement.

Source: Compiled from data reported in United Nations Conference on Trade and Development, Monthly Commodity Price Bulletin, 1960-80 Supplement, April 1981.

A consumer protection provision in the U.S. legislation 1/ implementing participation in the ISA directs the President to report to the Congress and to ask the ISO to take corrective action "if the President determines that there has been an unwarranted increase in the price of sugar due in whole or in part to the Agreement, or to market manipulation by two or more members of the International Sugar Organization." If the ISO does not act, the President must recommend to the Congress the appropriate action to be taken. U.S. participation in the agreement shall be suspended if ISO members "involved in market manipulation . . . have failed to remedy the situation within a

1/ P.L. 96-236, International Sugar Agreement, 1977, Implementation.

reasonable time after a request for remedy." During U.S. membership in the ISO, "unwarranted" price increases and market manipulation have not occurred. If they did occur, these activities would become known quickly by the trade and by the U.S. Government.

U.S. participation in the agreement requires restricting imports from nonmember countries and requires that imports from members be accompanied by a certificate of contribution to the buffer-stock-financing fund. For 1980, the United States had a global import quota of 6.9 million short tons (almost 6.3 million metric tons), out of which a small share had been allocated for nonmembers of the ISA. Because of the high prices, however, quotas for nonmembers of the ISA were not imposed.

Tin

The Fifth International Tin Agreement (ITA) remained in effect in 1980, having entered into force provisionally in July 1976 for a term of five years. It entered into force definitively in 1977 and is the first ITA to which the United States is a member. All participating countries are represented on the International Tin Council 1/, which is the decisionmaking body for the ITA.

The major objectives of the Fifth ITA are to maintain stable world market prices and to strike a balance between world production and consumption of tin to avoid world surpluses or shortages. A price range, buffer stock, and export controls are specified in the ITA to achieve these goals.

A price range can be set by a simple distributed majority vote of the Council. It includes a floor and a ceiling price 2/ with upper, middle, and lower sectors between these prices. The floor price can be protected through purchases of tin for the buffer stock and the use of export controls. Under the Fifth ITA, export controls are not to be applied until at least 5,000 metric tons have been accumulated in the buffer stock, 3/ and with approval by a simple majority vote of the Council. When the market price is in the lower sector, action to support the floor price is discretionary; when below the floor price, action is mandatory.

1/ The producing and consuming country groups are each allocated 1,000 votes, with each country receiving an initial allocation of 5 votes. The remaining votes within each group are distributed according to each country's share of total member country import or export volume.

2/ On Mar. 13, 1980, the floor price was raised from an equivalent 525.4 to 577.9 U.S. cents per pound, and the ceiling price from 683.0 to 751.3 U.S. cents per pound. In the agreement, price ranges are given in terms of the Malaysian currency.

3/ Under the Fifth ITA, the buffer stock size was to equal 20,000 metric tons contributed by producing countries (as tin or cash equivalent of tin) with additional voluntary contributions of up to 20,000 tons provided by consuming countries.

The ceiling price can be protected by sales from the buffer stock. Price support action when the market price is within the upper sector is discretionary, but mandatory when above the ceiling price. The fifth ITA has not been successful in defending the ceiling price. Because it was established in a period of generally rising tin prices, buffer stock reserves were exhausted in January 1977, and no tin has been accumulated in the buffer stock since then. Therefore, this tool has not been available to the ITA. In 1980, the market price was at or above the ceiling price for the first 9 months of the year, and was below the ceiling for the rest of the year.

Because the Fifth ITA is scheduled to expire on June 30, 1981, negotiations were convened for the Sixth ITA in 1980. There were two negotiating sessions, the first taking place April 14 through May 14, and a second occurring for three weeks in December. Since a consensus had not been reached at the December session, a third negotiating session was scheduled for March 1981. Three of the major issues during the 1980 negotiations are summarized as follows.

(1) Buffer stock size and financing.--A major problem of the Fifth ITA was its inability to protect the ceiling price, since the buffer stock for tin had been exhausted since 1977. The United States therefore proposed that the buffer stock be larger than it was under the Fifth ITA, and that governments must commit themselves to financing the full costs of buying and storing these stocks. Financial obligations would be shared equally between producing and consuming countries. The United States proposed a buffer stock of 55,000 metric tons of tin metal at the close of the December negotiations. A compromise proposal by the director of the International Tin Council included a buffer stock of 50,000 metric tons, consisting of a normal stock of 30,000 tons financed from direct government contributions, and additional stock of 20,000 tons financed through borrowing. Besides disagreeing with the size of the buffer stock, the United States argued that this proposal did not providefor financing of all costs associated with the holding of a buffer stock, and therefore, the real size of the stock would be somewhat less than 50,000 metric tons.

(2) Export controls.--The United States has traditionally opposed the use of export controls to protect the floor price, instead favoring purchases of tin for the buffer stock. Under the Fifth ITA, it was necessary to accumulate 5,000 metric tons in the buffer stock before there could be a vote to impose export controls (a simple majority vote required). The position of the United States for the Sixth ITA was that it was necessary to accumulate 45,000 metric tons of tin in the buffer stock before a majority vote to impose export controls could be taken. In addition, the United States argued against the imposition of export controls unless the market price was below the floor price, and unless there was a provision for automatic rescinding of export controls at the end of the quarter or when market prices improved. The compromise proposal was for export controls to be imposed at lower buffer stock accumulations. 1/

1/ Under this proposal, export controls could be imposed when (1) 35,000 metric tons were held in the buffer stock, and with approval by a two-thirds majority vote of the Council, or (2) 40,000 metric tons were held in the buffer stock, and with approval by a simple majority vote of the Council.

(3) Bandwidth.--The bandwidth determines the range of prices above the floor price or below the ceiling price where discretionary action may be taken in support of the floor or ceiling price. The United States has favored price bands fixed at a certain percent above or below the floor and ceiling prices, respectively. In addition, the United States has favored a narrow band, which would limit when discretionary market intervention could be taken. Under the Fifth ITA, the Council could change the bandwidth by a simple majority vote, and this arrangement is supported by some countries in negotiations for the Sixth ITA.

At the close of the negotiating conference in December it was believed that in 1981 the Fifth ITA would be extended by one year from July 1, 1981, to allow for further negotiations and ratification of a Sixth ITA.

Sales from the U.S. National Defense Stockpile of Grade A tin were resumed on July 1, 1980. 1/ Two bills 2/ which were passed in 1979 gave the President authority to sell 35,000 metric tons of tin from the stockpile. Of this amount, 5,000 metric tons may be contributed to the ITA's buffer stocks. Sales are administered by the General Services Administration on a competitive bid basis. Although a target sales rate was set at 10,000 metric tons per year, only 25 tons were sold in the last 6 months of 1980. This low volume of sales was primarily due to the fact that the price at which the GSA would take bids was generally above the market price, which had been low in the last half of the year owing to a depressed market.

Wheat

In 1980, the International Wheat Agreement of 1971 (IWA) remained in effect, having been extended for 2 years on July 1, 1979. This is the only commodity agreement in which the United States has membership as an exporting or producing nation. Unlike most other commodity agreements, the IWA, which consists of a Wheat Trade Convention and a Food Aid Convention, contains no provisions for target prices, reserve stocks, or export quotas. 3/ Without such economic provisions, the IWA has served principally for collecting and exchanging trade data, as a form for consultations among members, and in providing food aid to member-developing countries (under the Food Aid Convention). The 1971 IWA originally expired in 1974; the Wheat Trade

1/ Sales by the Government Services Administration (GSA) were suspended in June 1978.

2/ The Strategic and Critical Materials Stock-Piling Revision Act of 1979 (Public Law 96-14) authorized sales or purchases of National Defense Stockpile commodities, if so ordered by Congress. The Strategic and Critical Materials Transaction Authorizations Act of 1979 (Public Law 96-175) gave specific authorization for the sale of tin and industrial diamonds.

3/ The IWA is administered by the International Wheat Council, on which each exporting and importing member country is represented. In 1980, 48 countries and the EC were members of the IWA.

Convention has been extended five times since there has been no agreement on a revision of this portion of the IWA. The major development in 1980 was the negotiation of a new Food Aid Convention, which increased donation obligations of certain member countries (see the following explanation).

The 1980 Food Convention became effective for one year on July 1, 1980. Under this agreement, 11 member countries and the European Community have agreed to donate a total of 7.6 million tons of food aid annually (wheat or other grains, or a cash equivalent) to member developing countries. This compares with an annual obligation of 4.2 million tons under the 1971 Food Aid Convention. The U.S. share under the new convention is 4.5 million tons annually.

Negotiations relating to a revised Wheat Trade Convention have generally focused on including in the agreement economic provisions to stabilize world market prices of wheat and to ensure adequate supplies of wheat to importing member countries. The most recent formal negotiations took place in February 1979, when discussions centered on the setting of floor and ceiling price limits, and accumulations of nationally held reserve wheat stocks. Buying or selling of the reserve stocks was intended to keep the world market price of wheat within these price limits. However, consensus could not be reached on the specific size of the reserve stocks or on the price levels where obligations to buy or sell from the wheat stocks would be triggered.

In 1980, a special committee was organized to study and report on an "alternative approach" to a new Wheat Trade Convention. An outline of the alternative approach was presented at the 91st session of the International Wheat Council, held November 24-27. The basic characteristics of this proposal included: (1) obligations by member countries to accumulate reserve stocks of wheat; and (2) consultation among member countries would be triggered when an indicator price 1/ reached specific upper or lower band prices. Based on these consultations, recommendations could be made to buy or sell reserve stocks in order to stabilize the market price. At the close of 1980, agreement had not been reached to initiate formal negotiations for a new Wheat Trade Convention. The position of the United States was that the new administration would have to review the proposed alternative approach before negotitations could begin.

The Organization of American States

The Organization of American States (OAS) 2/ deals with trade matters through its General Assembly, the Inter-American Economic and Social Council, and especially through a subsidiary body of the council, the Special Committee

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1/ This price would be based on a basket of wheat prices.

2/ The members of the OAS are Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Suriname, Trinidad and Tobago, the United States, Uruguay, and Venezuela. Permanent observers to the OAS include: Austria, Belgium, Canada, Egypt, West Germany, France, Guyana, Israel, Italy, Japan, the Republic of Korea, the Netherlands, Portugal, Spain, and Vatican City.

for Consultation and Negotiation (CECON). The Special Committee, created in Caracas, Venezuela in 1970, is composed of representatives at the ministerial level of all OAS member nations. The Committee acts as an instrument of consultation between the Latin American nations and the United States within the framework of a policy of hemispheric cooperation for development. Meeting regularly twice a year, 1/ the Committee serves as a forum for continuing consultation for the purposes of arriving at effective solutions to the economic problems hindering Latin America's development, setting necessary priorities, instituting action programs, and handling emergency situations in these areas as they arise. The primary area of attention has been Latin American-U.S. trade.

Its first session was held in Washington, D.C., in 1970. The first area of focus was the expansion of Latin American trade with the United States, towards which end a special ad hoc group on trade was established to identify obstacles to trade, to study tariff and nontariff barriers, and to prepare specific recommendations for the gradual elimination of those barriers. The efforts of the CECON during the last decade have been concentrated on the establishment and operation of the U.S. Generalized System of Preferences, 2/ consultations on problems related to trade of basic commodities, and following closely the development and results of the Tokyo round negotiations. The committee is currently evaluating the activities of CECON for the purpose of setting new priorities.

The Organization of American States, through CECON, also provides a consultative forum for the purpose of arriving at effective solutions prior to the adoption of measures that might adversely affect trade between the United States and Latin America. Consultations are also held to increase access to the U.S. market for primary manufactured, and semimanufactured products that originate in the developing member countries. CECON also seeks to identify the tariff and nontariff restrictions that limit or prevent the access of these products to the U.S. market so as to consider recommendation for their possible elimination. It also examines the products not included within the U.S. Generalized System of Preferences for the purpose of identifying the products of special interest to Latin America for the possible inclusion of these products within the system.

Bilateral Trade Agreement Activities

In general, since 1946 the focus of U.S. trade agreement activity has been on multilateral agreements negotiated within the GATT framework. At times, however, the United States has continued to use bilateral agreements to resolve trade issues, especially when the issue has only a bilateral significance or the country involved is not a member of GATT. Also under Title IV of the Trade Act of 1974, the extension of MFN tariff treatment to Communist countries receiving discriminatory tariff treatment is possible only in the context of bilateral commercial agreements.

1/ The regularly scheduled meetings may be supplemented by specially called sessions, as the need arises.

2/ For more information on the Generalized System of Preferences, see ch. V.

Clarification and adjustment of MTN bilateral agreements

During the first half of 1980 the United States exchanged memoranda of understanding with numerous countries with which bilateral agreements had been negotiated in the MTN in order to clarify the scope or status of those agreements or to carry out procedures required under the Trade Agreements Act of 1979. While most of these exchanges may technically qualify as bilateral agreements, they generally did not modify the basic agreements made in 1979.

Dominican Republic.--An exception is the agreement with the Dominican Republic signed on January 2, 1980. In the 1979 agreement with the Dominican Republic, the United States delayed making concessions on certain tariff items, principally vegetable products, of interest to the Dominican Republic, pending completion of negotiations with Mexico. However, in the January 2, 1980 exchange, the Dominican Republic agreed not to press for concessions on these products in return for a duty reduction by the United States of 40 percent on certain cigars.

Canada.--In the MTN, a U.S. concession on live cattle weighing 200 pounds or more but under 700 pounds (TSUS item 100.45) was negotiated with both Mexico and Canada. When Mexico announced in March of 1980 that it would not join the GATT, with the consequence that concessions negotiated with Mexico would not be implemented, a dispute arose between the United States and Canada over the conditions under which the U.S. concession negotiated with Canada was to have been implemented, as well as a Canadian concession on live cattle. An agreement was reached in November 1980 which implemented the previously agreed tariff concessions retroactive to January 1, 1980, but on an unbound basis, and on the understanding that, should the United States increase the rate of duty above the agreed level: (a) Canada would be free to increase its tariff on live cattle, 200 pounds or more but less than 700 pounds classified under Canadian tariff item 501.1 to the level of the U.S. rate, up to a maximum of 2.5 cents per pound; (b) the United States may terminate or suspend the implementation of any stage of the tariff reductions or the entire reduction for TSUS item 100.45, and that any such action by the United States would automatically result in an increase in the duty applied of up to the then current unbound rate of 2.5 cents per pound; (c) in the event of any such rate increase by the United States and any corresponding increase by Canada to the same level, the United States and Canada would not seek compensation; and (d) the United States and Canada would consult prior to making any changes in the tariff levels.

Mexico.--As part of the MTN, in a special bilateral agreement signed in October 1979 the United States agreed to reduce its tariffs on four lead products in expectation of concessions to be made by Mexico in its accession to the GATT. However, in March 1980, Mexico decided against acceding to the GATT, and as a consequence of this action, it became necessary for the United States to restore its balance of concessions vis-a-vis Mexico in this agreement. In this connection, an agreement was reached in August of 1980, whereby Mexico agreed to provide a tariff binding for aluminum strips at the current rate and to remove import licensing requirements for this item effective August 1980. The United States, in turn, agreed that it would only suspend its concession on litharge and red lead.

Textile Agreements

There is a continuing cycle of negotiations on bilateral agreements to regulate U.S. imports of textiles and apparel. Most of these agreements are with signatories to the Multifiber Arrangement and are under the umbrella of that arrangement. Agreements were signed in 1980 with the seven countries listed below. Prior agreements had existed with all of these countries except China, Costa Rica, and Sri Lanka.

Country	Period of the Agreement
China	1/1/80 - 12/31/82
Costa Rica	1/1/80 - 12/31/83
Malaysia	1/1/81 - 12/31/84
Poland	1/1/81 - 12/31/84
Romania	4/1/81 - 3/31/85
Sri Lanka	5/1/80 - 4/31/83
Yugoslavia	1/1/80 - 12/31/83

Supply/Purchase Agreements for grains and other agricultural products

China.--A 4-year United States-China grain agreement was signed on October 22, 1980. Under the agreement, the Chinese are committed to purchase a minimum of 6 million metric tons of U.S. grain annually, and they may purchase up to 9 million metric tons without prior notice. If purchases under the agreement are expected to exceed 9 million metric tons, the U.S. Department of Agriculture must be consulted first; whether China is then permitted to buy more will depend on the status of the U.S. market. All transactions under the agreement will be between private U.S. firms and the Chinese Government, without U.S. Government participation. 1/

Mexico.--The United States, on January 17, 1980, concluded a supply/purchase arrangement covering several basic agricultural products totaling at least 4.8 million short tons for calendar year 1980. A similar agreement covering calendar year 1981 for the supply of at least 6.15 to 8.18 million short tons was signed on December 3, 1980. Among the products included in the agreements were corn, sorghum, wheat, rice, soybeans, sunflower seed, cottonseed, soybean meal, soybean and sunflower oil, tallow, and nonfat dry milk.

Soviet Union.--The supply/purchase agreement on grains signed with the Soviet Union in 1975 was scheduled to expire in December 1980. In August of that year, the United States and the Soviet Union agreed to a 1-year extension of the agreement.

1/ For a detailed analysis of the United States-China grain agreement and its history, consult "United States-China Grain Agreement," in 26th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries, USITC 1161, June 1981, p. 31.

Agreements with China

Following approval by the Congress, the United States-China trade agreement signed on July 7, 1979, entered into force on February 1, 1980. The most significant provision of the accord is for the mutual extension of MFN tariff treatment. The agreement also includes provisions for the facilitation of banking and other business transactions and for the reciprocal protection of patents, copyrights, and trademarks. 1/ In addition, the United States and China negotiated a bilateral agreement covering commercial transport and a consular convention. These agreements, together with the textiles and grains agreements mentioned above, were signed by President Carter and China's Vice Premier Bo Yibo on September 17, 1980.

Compensation Agreement with the European Community

Legislation enacted in 1968 modified the U.S. tariff schedules so that wool-blend fabrics imports would be reclassified into tariff categories with significantly higher rates of duty than had been previously applied to such fabrics. Italy was the principal supplier of the reclassified fabrics. In consultations under GATT Article XXIII the European Community pressed for compensation on the grounds that the higher duties violated U.S. GATT concessions on the fabrics. The United States contended that the U.S. legislation had only corrected a tariff loophole. The issue was finally settled on January 2, 1980, when the United States and the European Community signed an agreement under GATT Article XXVIII in which the United States acknowledged violation of the concessions and as compensation agreed to reduce its tariff on two silk items (TSUS items 377.20 and 337.40) from the MTN concession rate of 6 percent ad valorem to a final rate of 5 percent, with the final rate becoming effective January 1, 1983.

Agreement with Japan on procurement of telecommunications equipment

After the MTN ended, the United States continued intense negotiations with Japan to bring the purchase of telecommunication equipment by Nippon Telephone and Telegraph (NTT) under the MTN Government Procurement Agreement. In December of 1980 in a bilateral agreement with the United States, Japan agreed to place NTT's purchases of certain equipment under the Government Procurement Agreement and to conduct the procurement of other types of equipment in conformance with the provisions of that Agreement for a 3-year period, at the end of which the arrangement will be reexamined and may be extended for another 3-year period.

1/ For a detailed discussion of the history of the United States-China trade agreement and its impact on trade between the two nations, consult "Developments affecting U.S. commercial relations with China," in the *25th Quarterly Report* . . . , USITC 1136, March 1981, p. 35.

Residual authority to negotiate duties

During the 2-year period following expiration of the basic tariff reduction authority delegated to the President in section 101 of the Trade Act of 1974 (i.e., January 3, 1980, through January 2, 1982), the President may, under provisions of section 124 of the 1974 act, enter into trade agreements for further duty reductions of up to 20 percent, so long as such reductions (1) do not result in rates lower than those that would have resulted if the full basic authority under section 101 had been used, and (2) the value of imports covered by new concessions in any 1-year period does not exceed 2 percent of the value of U.S. imports for the most recent 12-month period for which statistics are available.

Early in 1980, work began on identifying the items which would be subject to possible further duty reductions under the residual authority selecting from the list of such items those which would be subsequently issued in a public notice, in conformity with section 131(b) of the Trade Act of 1974, as articles being considered for possible duty modification in trade agreement negotiations. The notice, listing 1,562 items, was published in the Federal Register on August 8, 1980, and submitted to the Commission with a request for advice on the probable economic effects of the tariff reductions authorized by section 124 on the domestic industries producing like or directly competitive articles and on consumers. A supplemental notice, requesting the Commission's advice on the probable economic effects for additional items, appeared in the Federal Register on October 15, 1980. The Commission's advice would be submitted early in 1981. In the meantime the U.S. Trade Representative notified other countries of U.S. interest in bilaterally negotiating additional reciprocal concessions under this authority.

CHAPTER IV

DEVELOPMENTS IN MAJOR TRADING PARTNERS

Introduction

The operation of the U.S. trade agreements program is affected by developments in the world economy, especially those concerning our major trading partners. Differing rates of economic growth or of inflation, the expansion or contraction of trade, the movements of exchange rates, or actions taken by partners or groups of partners under their trade agreement programs have definite implications for the trade of the United States. This chapter on major trading areas discusses these developments so that actions taken under the U.S. trade agreements program can be considered in the context of world trade.

The European Community 1/

The economic situation in 1980

The second round of oil price rises hurt EC economic performance in 1980, leading to slower growth, higher inflation rates, large current account deficits, and rising unemployment. Overall, real GDP growth slowed to 1.3 percent in 1980, down from 3.4 percent in 1979. Real 1980 GDP actually declined in the United Kingdom and Denmark; Italy showed the highest growth rate, followed by West Germany and France.

Pushed by higher oil prices, inflation worsened in 1980. The annual increase in consumer prices 2/ averaged 12.1 percent for EC members in 1980, compared with 8.9 percent in 1979. Inflation rates of EC members diverged during 1980, reaching twice the average divergence among EC members in the 1970's. 3/ Some slowing of inflation rates occurred toward yearend 1980, particularly in the United Kingdom.

Exchange rate relationships among participants in the EC exchange rate stabilization mechanism, the European Monetary System (EMS), were maintained throughout 1980. The United Kingdom has not joined the EMS, and the British pound appreciated during the year relative to other EC currencies. The U.S. dollar fluctuated widely against most European currencies until mid-year, then recovered substantially.

Unemployment in the EC averaged 6 percent in 1980, passing 7 percent by early 1981. The greatest increases in unemployment rates were seen in Denmark, the Netherlands, and the United Kingdom. High unemployment among young people caused grave concern.

1/ In 1980, Belgium, Denmark, France, Ireland, Italy, Luxembourg, the Netherlands, the United Kingdom, and West Germany were members of the European Community.

2/ Percentage change in the private consumption deflator.

3/ The standard deviation rose to 5.6 percent in 1980.

Economic policy in EC countries during 1980 centered on avoiding errors similar to those that followed the first oil price shock in 1973-74. At that time, high liquidity levels combined with substantial wage increases led to rampant inflation. To limit the inflationary impact of oil price increases, most member countries adopted more restrictive monetary policies in 1980. The Commission of the European Community recommended policies of low-wage increases, reduced government spending, and channeling investment to expand industries with future growth potential. Stronger cooperation between the European Community and the United States in monetary and exchange rate policies was also recommended.

International performance

Balance of payments.--The European Community's aggregate current account 1/ deficit increased during 1980. Expressed as a share of GDP, the deficit increased from 0.5 percent in 1979 to 1.5 percent in 1980, the largest proportion ever recorded. EC sources attribute the increase to the combined impact of higher oil prices and a slowdown of the growth of world trade (in real terms, from 6.5 percent in 1979 to 2.5 percent in 1980). The following tabulation shows EC members' current account balances, as a share of GDP for each country in 1980.

Country	Current account balance	Current account balance of payments as a share of GDP
	Billion dollars	Percent
Belgium	-6.7	-5.6
Denmark	-2.7	-4.1
France	-8.5	-1.3
Ireland 1/	-1.5	-8.3
Italy	-10.2	-2.6
Luxembourg 1/	.9	20.8
Netherlands	-2.4	-1.5
United Kingdom	5.2	1.0
West Germany	-14.0	-1.7
Total 1/	-39.0	-1.5

1/ Estimate.

Official estimates predicted little improvement in the EC current account, forecasting a 1981 deficit of 1.6 percent, another record. Export volume relative to import volume improved during 1980 2/ but was offset by deteriorating terms of trade caused by import price increases, especially increases in the price of oil. A continued decrease in the volume of imports relative to exports has been forecast for 1981, but worsening terms of trade are expected to prevent improvement in the current account balance.

1/ Combined total of trade in goods and services and transfers.
2/ The volume of net oil imports fell almost 11 percent in 1980 and has been predicted to fall 5 percent or more in 1981.

Merchandise trade with major trading partners.--European Community imports grew 27 percent to $375 billion in 1980. Imports from OPEC countries rose 40 percent, due almost entirely to oil price rises. In 1979, imports from the United States increased 30 percent, whereas imports from Japan grew only 21 percent; 1980 EC imports from the United States and Japan each grew about 30 percent.

In 1980, EC exports increased 19 percent to $316 billion, falling short of import increases. Exports to OPEC countries grew 30 percent, partly countering rising oil import costs. During the year, EC exports to the United States grew 7 percent, and EC exports to Japan stayed nearly flat (increasing less than 1 percent).

With export growth lagging behind import increases, the European Community's trade deficit doubled during 1980, growing from $29 billion in 1979 to almost $59 billion in 1980. The large 1980 EC-Japan trade deficit, $11 billion, caused serious bilateral tension. The 1980 EC deficit in trade with the United States reached $23 billion, more than twice the size of the trade deficit with Japan. The EC's 1980 trade deficit with OPEC countries was $41 billion, representing a 54-percent increase. EC sources predicted little improvement in the trade deficit for 1981.

Major U.S. exports to the EC in 1980 were soybeans, aircraft, gold and silver bullion/ore, automatic data-processing equipment, coal, parts of office machinery and data-processing equipment, seed for planting purposes, metal coins, and engine parts. Top U.S. imports from the EC were motor vehicles; crude petroleum; chassis, bodies, and other parts of automotive vehicles; aircraft; tractors; pneumatic tires; gold and silver bullion/ore; and internal combustion engines.

Trade issues and policy developments during 1980

EC enlargement.--During 1980, the European Community completed ratification procedures for the Greek Treaty of Accession to the EC and continued accession negotiations with Portugal and Spain. The addition of three relatively less developed Mediterranean countries poses adjustment problems for many EC programs. Agricultural spending (which already strains the EC budget) is expected to increase: expensive surpluses in olive oil and wine are predicted when new members' farmers receive benefits under EC CAP (Common Agricultural Policy) programs. 1/ High inflation rates in the applicant countries may hinder their participation in the EMS. Relations with the developing world, whose trade might be displaced by imports from the new members, could deteriorate. Difficulties in certain industrial sectors (textiles, shoes, steel, and so forth) may be intensified when trade barriers to imports from the new members are eliminated. Poor Mediterranean regions in France and Italy will have to compete with the new members for EC agricultural markets. Also, the new members' industries may find it hard to survive without protective trade barriers against EC products, and Community financial assistance will probably be required to deal with balance-of-payments problems.

1/ Italy, Spain, and Greece are the top olive oil producers in the world.

Table 8.--Imports, exports, and trade balances, of the European Community for selected countries and country groups, 1978-80

(In millions of U.S. dollars)

Country/region	1978	1979	1980 1/
	Imports		
Developed countries:			
Canada	5,084	6,847	8,689
Japan	11,072	13,407	17,447
United States	35,370	46,094	60,298
Other	54,833	70,776	84,302
Subtotal	106,359	137,125	170,736
LDC's:			
OPEC	48,346	66,070	2/ 92,439
Mexico	498	622	1,443
Other	49,632	64,351	73,005
Subtotal	98,476	131,043	166,887
NME's:			
China	1,213	1,835	2,588
U.S.S.R	7,923	11,281	15,347
Other	10,389	13,601	15,112
Subtotal	19,525	26,717	33,047
Total	224,360	294,885	4/ 375,020
	Exports		
Developed countries:			
Canada	4,092	4,640	4,712
Japan	4,731	6,338	6,349
United States	29,573	34,354	36,821
Other	62,098	81,169	98,833
Subtotal	100,494	126,500	146,715
LDC's:			
OPEC	39,608	39,097	2/ 50,995
Mexico	1,634	2,116	3,037
Other	55,672	68,510	73,931
Subtotal	96,914	109,724	127,963
NME's:			
China	1,901	2,879	2,350
U.S.S.R	7,174	8,649	10,415
Other	15,054	17,907	18,474
Subtotal	24,128	29,435	31,239
Total	221,537	265,659	4/ 316,462

Table 8.--Imports, exports, and trade balances, of the European Community for selected countries and country groups, 1978-80 (Continued)

(In millions of U.S. dollars)

Country/region	1978	1979	1980 1/
	Trade balance		
Developed countries:			
Canada	-992	-2,207	-3,977
Japan	-6,341	-7,069	-11,098
United States	-5,797	-11,740	-23,477
Other	-7,265	10,392	14,531
Subtotal	-5,864	-10,624	-24,021
LDC's:			
OPEC	-8,738	-26,973	2/ -41,444
Mexico	1,135	1,494	1,594
Other	6,041	4,159	926
Subtotal	-1,562	-21,320	-38,924
NME's:			
China	688	1,044	-238
U.S.S.R	-750	-2,632	-4,932
Other	4,665	4,306	3,362
Subtotal	4,603	2,718	-1,808
Total	-2,823	-29,226	4/ -58,558

1/ For Belgium and Italy, estimated using available data.
2/ OPEC plus Oman.
3/ Not available.
4/ Total imports and exports are International Monetary Fund estimates; subtotals do not add up to listed totals, because totals include special categories.

Source.--Compiled from United Nations Series D trade data and Direction of Trade Statistics, International Monetary Fund.

However, new entrants may derive benefits from EC membership. EC agricultural programs and improved access to Community markets may help farmers in Greece, Spain, and Portugal. Low-labor costs combined with intensified economic links and lowered trade barriers may lead to increased capital investment in new members by other EC countries. Also, some of the new entrants' industries may benefit from reduced trade barriers, and development aid grants to new members may help with creation of more competitive industries.

Greek accession.--Following ratification of the Greek accession treaty by Greece and EC members, Greece became a full EC member on January 1, 1981. Most trade barriers between Greece and the rest of the Community will be phased out by January 1, 1986 (extended to Jan. 1, 1988 for certain agricultural products). 1/ During 1980, intensive preparations were made for accession. Regular consultations were held to obtain Greek views on proposed EC legislation, and beginning in September Greek officials attended EC Council meetings as observers. Frequent contacts occurred to ensure satisfactory application of Community legislation in Greece. The Commission of the EC drafted regulations to adapt EC customs practices to the transitional phase of Greek membership. Negotiations were held to adapt EC preferential agreements and textile accords to conditions after Greek accession. In addition, the Community provided financial aid for several projects intended to help Greece adjust to EC membership.

Greece is troubled by serious balance-of-payments problems and a high inflation rate (26 percent in 1980). Many sources questioned whether EC membership is likely to be beneficial, doubting that certain heavily protected Greek industries will be able to adapt when trade barriers are eliminated. Agricultural benefits may also be more limited than Greece hoped for, owing to constraints on the EC budget.

Some U.S. agricultural interests have expressed fears that bringing Greek, Spanish, and Portugese agriculture under Common Agricultural Policy programs may lead to reduced EC demand for U.S. products. 2/ Views were mixed on what effect Greek accession will have on U.S. trade with Greece, some arguing that certain U.S. exports, particularly capital goods, might benefit from enlargement. 3/ For 18 years Greece and the EC have been gradually reducing import tariffs on each other's commodities under an association agreement signed in 1962. Assuming that negative effects on U.S. trade have been "worked through" by now, it has been suggested that trade liberalization "forced on Greece by EC membership" might improve U.S. access to Greek markets. U.S.-EC negotiations, under GATT auspices, on compensation for U.S. trade benefits lost due to Greek accession to the Community are scheduled to be held in 1981.

1/ For a description of the accession agreement, see Operation of the Trade Agreements Programs, 31st report, USITC Publication 1121, p. 119.
2/ Operation of the Trade Agreements Program, 31st report, p. 120.
3/ Journal of Commerce, November 16, 1980.

Other enlargement negotiations.--In 1980, substantive accession negotiations with Portugal began, and the EC agreed to a Portuguese request for preaccession aid. At meetings throughout the year, the following areas were examined: customs union and free movement of industrial goods, Portugal's participation in the European Coal and Steel Community (ECSC), capital movements, economic and financial matters, taxation, social affairs, regional policy, and transport. Portugal also submitted a preliminary statement on agriculture outlining problems that must be dealt with in applying EC agricultural programs to Portugal. The Commission of the EC drew up three proposals having to do with transitional provisions for trade in industrial goods in the enlarged Community, capital movements, and Portugal's accession to the ECSC. Portugal is expected to join the Community in the mid-1980's.

Preliminary negotiations with Spain continued throughout 1980. The EC and Spain exchanged statements on capital movements, right of establishment and freedom to provide services, social issues, taxation, transport, regional policy, own resources, 1/ customs union in the industrial sector, Spain's participation in the ECSC, external relations, and economic and financial affairs. In December, the Commission of the EC submitted preliminary proposals on Spanish agriculture, the major stumbing block in negotiations. The plan proposed that Spain agree to constraints on commercial expansion in EC markets "to preserve the traditional outlets of associate Mediterranean countries," and that Spain accept any CAP reforms that may occur before Spain joins. Protracted negotiations on agriculture are expected in 1981. Spain, like Portugal, is expected to become an EC member in the mid-1980's.

In February, Turkey announced that it expected to apply for EC membership before the end of 1980. However, Turkey did not submit an application by yearend. 2/ The EC and Turkey currently participate in an association agreement, and measures to expand the agreement were approved by the EC Council of the European Community in September.

MTN implementation.--The European Community took the following actions to implement agreements reached during the Tokyo round of multilateral trade negotiations: 3/

(i) The first-stage tariff cuts were incorporated in the EC tariff in 1980, along with the duty-free treatment agreed for a range of products in the civil aircraft sector;

1/ Each EC member is required to contribute certain of its "own resources" (revenue from customs duties, levies on agricultural imports, and 1 percent of a value-added tax on consumer goods) to finance the Community budget. Negotiations to determine new members' contribution levels are complicated by gradual adoption of EC customs practices, agricultural policies, and taxation systems.

2/ A military takeover of the Turkish Government occurred in September.

3/ Commission of the European Communities, Fourteenth General Report on the Activities of the European Communities, p. 238.

(ii) In line with the new antidumping and subsidies agreements, the Council of the EC adapted Community regulations to comply with agreed procedures on protection against dumping or the granting of bounties or subsidies by countries that are not EC members;

(iii) Detailed regulations were adopted to give effect to specific concessions granted by the Community in the agricultural sector;

(iv) The Council of the EC adopted a decision laying down provisions on the introduction and implementation of technical regulations and standards, in compliance with the Agreement on Technical Barriers to Trade;

(v) A new regulation on the valuation of goods for customs purposes was adopted in May;

(vi) The first tariff cuts on chemicals were put into effect on July 1, 1980, the date on which the United States abolished the American selling price system of customs valuation;

(vii) In July 1980, the Council of the EC adopted a directive amending the rules on the award of public supply contracts in accordance with the new Agreement on Government Procurement.

No specific implementing measures were thought necessary for agreements on licensing procedures, civil aircraft, dairy products, and bovine meat because EC officials considered that legislation already in force in the Community and member States was consistent with the new MTN agreements.

European Monetary System.--The EMS entered force on March 13, 1979. All EC countries except the United Kingdom joined. Designed to improve monetary stability in Europe, the EMS replaced the failed European currency "snake." 1/ Exchange rate stability among members improved during 1980, but plans for expanding EMS functions were delayed.

The basis of EMS operations is the European currency unit (ECU), a weighted average of EC currencies (including the British pound). 2/ Central rates denominated in ECU's are assigned each participant. Participants are required to intervene in the exchange market when their currency's exchange rate diverges from its ECU-denominated central rate by more than 2.25 percent. 3/

At its meeting in December, the Council of the EC agreed that the EMS exchange rate control mechanism operated successfully, overall, during 1980. Progress in other areas was more limited. The United Kingdom failed to join

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1/ An earlier, largely unsuccessful EC currency stabilization plan.
2/ For further description of EMS mechanisms, see Operation of the Trade Agreements Program, 31st report, p. 116.
3/ 6 percent for Italy.

but indicated interest in future membership. Inflation rates of members still diverged. Development of the ECU into a reserve currency and creation of a European Monetary Fund were delayed. Also, no joint policy for dealing with currencies outside the system was formed.

All participating currencies remained within allowed margins of fluctuation, and no changes in central rates were required. 1/ However, much central bank intervention was needed to keep some currencies within bounds. Most interventions were made in dollars, and greater use of EC currencies in interventions is an EMS goal. In 1980, interventions in EC currencies increased somewhat but remained much smaller than dollar interventions. In addition, some dollar interventions under EMS mechanisms were poorly coordinated, actually increasing strains between currencies in the system. 2/

Appreciation of the German mark relative to currencies of other participants threatened EMS operations during 1979. At that time, doubts were aired about whether the EMS could survive further strengthening of the mark. German economic problems during 1980 removed the strain of an appreciating mark from EMS operations, for the time being.

Industrial policies.--Steel and textile industries in the EC have faced problems for several years. Economic recession, rising energy costs, world overcapacity, outmoded manufacturing plants, and competition from recently industrialized low-wage countries have contributed to the industries' difficulties. The EC has taken steps to support its declining industries.

Steel.--In 1977, the Commission of the EC adopted a package of "anticrisis" measures--including mandatory minimum prices and bilateral arrangements to limit imports--to help the flagging EC steel industry. The package was developed by the EC Commissioner in charge of industrial affairs, Etienne Davignon, and is sometimes referred to as the "Davignon Plan." The measures were extended or renewed successively in December 1978 and December 1979. A decline in orders for steel within the Community, falling exports, 3/ and other factors deepened the EC steel crisis during 1980. In July, EC officials began discussing drastic action to "restore order to the market" by undertaking a balanced reduction in output. For the third quarter of 1980, total orders for EC steel were 20 percent below corresponding orders in 1979. Capacity utilization for EC steelmakers fell to 58 percent in September, the lowest rate ever recorded in the Community. EC steel prices fell 13 percent during January-September 1980, while production costs increased by 5 percent. In October, the Commission stated that a "manifest crisis," as described in article 58 of the European Coal and Steel Treaty, 4/ existed and established a system of mandatory steel production quotas under provisions of the article. The manifest crisis provisions of article 58 had never before been invoked.

1/ On Mar. 22, 1981, the Italian lira was devalued by 6 percent against other EMS currencies.

2/ The Commission of the European Communities, Fourteenth General Report on the Activities of the European Communities in 1980, p. 76.

3/ A U.S. action against European steel producers contributed to the decline (see ch. I of this report).

4/ Founding treaty of the European Coal and Steel Community.

Quarterly production quotas, calculated using reference production figures for each firm, were set for most steel products; reduction of overall steel production to about 16 percent below 1979 levels was planned. 1/ At German insistence, certain specialty steels were exempted from the compulsory quotas. Small firms whose output does not significantly affect the state of the market were also exempted. Firms were required to notify the Commission of the EC daily, weekly, and monthly of their production, deliveries within the Community, and exports. The quotas were scheduled to remain in force until June 30, 1981. 2/

In 1977, the EC began negotiating bilateral arrangements with major steel suppliers setting quantity limits and minimum prices for steel imports into the EC. During 1980, the Community extended arrangements setting quantity limits with 13 steel suppliers; quantity limits with 4 suppliers were not extended in 1980 because "there was no real commercial or economic justification for their further conclusion," but "basic prices applying to the others" will continue to apply to imports from those countries. 3/ Base prices for 1981 were raised by 5 to 9 percent, depending on categories of products. Owing to weak EC demand, most quantity limits were not reached in 1980 as steel imports from countries party to the arrangements fell by some 10 percent.

Textiles.--To help the declining EC textile industry, bilateral agreements have been negotiated with textile-exporting countries to regulate textile shipments to the EC. During 1980, the EC applied 27 such agreements, most of which were negotiated within the context of the GATT Multifiber Arrangement (MFA). 4/ The Community also has informal voluntary restraint agreements with countries that are granted preferential trade treatment. Following bilateral consultations with various textile-exporting countries, the EC and countries concerned agreed to 57 new quantitative limits on textile products during 1980.

The Commission of the EC reported to the Council of the EC in July 1980 on trends in the Community's textile trade and textile industry during the 2 years following renewal of the MFA. The report concluded that return to free trade for textiles after the MFA expires at the end of 1981 "would not be possible" and advocated negotiation of a further extension of the MFA.

1/ The following categories of steel products were subject to production quotas: coil and strip rolled on special mills; heavy plate and universal plate; heavy sections (railway equipment, sheet piling, broad-flanged beams, other beams, and other sections); light sections (coiled wire rod, concrete reinforcing bars, and other merchant bars). The rate of reduction in steel produced for fourth-quarter 1980 varied between 12 and 22 percent depending on the product category. All companies with a gross steel production of over 2,000 tons per month were required to abide by the production restrictions.

2/ On July 3, 1981, the EC Council agreed formally on a plan to continue article 58 measures for 70 percent of the Community steel industry, extending quotas until mid-1982.

3/ The United States is not a major steel exporter to the EC and did not join in these negotiations.

4/ For a description of the Arrangement Regarding International Trade in Textiles (also known as the Multifiber Arrangement), see The Multifiber Arrangement, 1973 to 1980 . . ., USITC Publication 1131, March 1981.

Fraud concerning the origin of textile products has been a problem in administering bilateral textile agreements. During the year, the Community took measures to ensure that textile products originating in Hong Kong and the Republic of Korea would be counted against those countries' quotas and negotiated an agreement with ASEAN 1/ countries on administrative surveillance of certain specific products.

So that all Greek textile imports would be covered by EC textile policy as of that country's accession to the Community on January 1, 1981, the Community negotiated additional protocols with textile suppliers, or adopted temporary measures pending completion of negotiations, for each bilateral textile agreement.

Common agricultural policy (CAP).--The EC's CAP, which absorbs almost three-quarters of the EC budget, uses price supports, variable levies on imports, and export subsidies to protect Community agricultural markets from world competition. Supporting farm incomes (with emphasis on improving incomes in poorer areas) and creating a unified market for EC agricultural products (with uniform prices communitywide) are major aims of CAP programs. CAP performance has fallen short of intended goals: price supports (the practice of unlimited purchase of products at guaranteed prices) have led to huge structural surpluses of many agricultural commodities (particularly milk); programs have benefited richer Northern European regions much more than poorer Mediterranean areas; 2/ and the fiction of "unified prices" has had to be sustained by a system of "monetary compensatory amounts" (discussed in following section) that offset the effect of exchange rate changes.

The rapid rise in the cost of CAP programs has caused growing controversy in recent years, triggering budget disputes 3/ among EC members and public debate about CAP reform. During 1980, many sources predicted that continued acceleration of farm spending would bankrupt the EC budget within 2 years. Increased agricultural spending following enlargement of the Community to include Greece, Portugal, and Spain was also feared. Consequently, reforms aimed at reducing expenditure on CAP programs were discussed throughout 1980. Proposals by the Commission of the EC for CAP reform are described in the section following discussion of CAP activities during 1980.

The EC's surplus milk production has been a major issue for several years. Financing 1980 price supports for milk accounted for 42 percent of EC agricultural spending and over 30 percent of the entire EC budget. High price support levels have encouraged production and discouraged consumption, leading to accumulation of surplus stocks of powdered milk and butter. Community milk production grew 3 percent in 1980 after increasing 2 percent in 1979; but progress occurred during the year in dealing with surplus stock levels due to stabilization of the market for milk and other fresh dairy products, increased consumption of cheese, greater use of skimmed milk in animal feed, and increased exports of milk products.

1/ Association of Southeast Asian Nations.

2/ Price supports apply mainly to Northern European products--milk, beet sugar, cereals, beef; staple crops around the Mediterranean--fruit, vegetables, and wine--have had more limited guarantees and lower prices.

3/ Disputes delayed adoption of an EC budget for 1980 until July 9, 1980.

The EC's sugar surplus remained a problem in 1980, as production of sugar exceeded consumption by about 30 percent. Record EC sugar crop yields during the past 3 years, stagnating consumption, and sugar imports required under preferential agreements 1/ contributed to the imbalance. High 1980 world sugar prices, however, aided EC sugar exports. The Council of the EC was unable to reach agreement on new production quotas for sugar by yearend; the Commission of the EC proposed a reduced overall quota for the Community, with Italy, the United Kingdom, and Ireland subject to the heaviest reductions.

CAP prices are fixed in a single currency unit (composed of a weighted average combination of EC currencies). As a result, devaluation of a member country's currency means a price rise for farmers in the devaluing country; similarly, revaluation causes a price fall. In addition, price differences can cause disruptive trade flows between countries as market forces attempt to find a unified price. To neutralize the effect of exchange-rate changes on trade, farmers' income, and consumer prices for certain commodities, 2/ in 1969 the EC instituted special exchange rates (green rates) that were used for setting price-support levels and computing a system of border taxes and rebates known as monetary compensatory amounts (MCA). "The intention of the MCA system is to maintain a trading equilibrium among the various EC countries despite the existence of different price levels." 3/ Thus, when a country's currency is revalued, compensatory amounts are levied on imports and granted on exports; a country with a depreciated currency grants compensatory amounts on imports and charges them on exports. MCA's are termed "positive" when green rates are below real exchange rates and "negative" when green rates are above real exchange rates.

At the outset, MCA were intended as a temporary measure, but continued currency instability during most of the 1970's prevented their removal. Improved stability among most European currencies during 1980 (attributed by EC sources to successful functioning of the EMS) allowed the Council of the EC to revise green rates so that negative French and Italian 4/ MCA's were discontinued, and positive German, Belgian, and Luxembourg MCA were reduced. Appreciation of the British pound caused positive MCA for the United Kingdom to be introduced for the first time at the end of March and to rise above German levels by yearend. The United Kingdom resisted pressure from other EC members and British consumer groups to permit revaluation of the green pound exchange rate, which would reduce the MCA levels.

On April 9, 1979, the Council agreed to provisional use of the ECU, the new EMS currency unit, in CAP operations. In February 1980, the Commission of the proposed permanent adoption of the ECU as the CAP currency unit. The Council did not adopt the proposal, but later in the year made arrangements to continue provisional CAP use of the ECU.

1/ A sugar protocol is contained in the Lomé Convention (discussed in the following section).

2/ Prices of the following commodities are adjusted through application of MCA's: beef and veal, milk and dairy products, certain processed foods, pigmeat, sugar and isoglucose, grains, eggs, poultry meat, and albumins.

3/ Attache report, Foreign Agricultural Service, U.S. Department of Agriculture, Report No. UK-1009, Jan. 30, 1981.

4/ Owing to further movements in the exchange rate of the lira, Italian MCA's were reintroduced on June 23, 1980.

Every year the Council of the EC revises intervention prices for agricultural products and makes other decisions on agricultural policy after reviewing proposals submitted by the Commission of the EC. Hoping to discourage excess production and limit the increase in CAP expenditures, the Commission's 1980 and 1981 agricultural price proposals advocated modest price increases of 2 to 3.5 percent for most products and 1.5 percent or less for surplus products. 1/ The Commission also proposed antisurplus measures for milk, advocating: (1) an increase in the coresponsibility levy 2/ on milk production in excess of specified levels from .5 to 1.5 percent, and (2) a supplementary 84-percent levy to be applied to additional milk collected by dairies that purchased more than 99 percent of the preceding year's quantity. In addition, the Commission recommended reduction of monetary compensatory amounts for Germany, the Benelux countries (Belgium, the Netherlands and Luxembourg), and Italy. In May, after "long and difficult discussions" that began in early March, the Council of the EC reached agreement on agricultural prices for fiscal year 1980-81. 3/

Low-price increases were opposed by EC farm interests (particularly French), and the Council chose not to limit price increases to the recommended levels. Agricultural prices were increased an average of 4.8 percent; prices for most products increased between 5.5 and 7.5 percent, and those for milk, beef and veal, and sugar were raised 4 percent. The milk coresponsibility levy was increased to 2 percent, but proposed measures against excessive dairy purchases, opposed by powerful dairy interests, were not taken. In addition, German and Benelux monetary compensatory amounts were reduced.

In December, the Commission submitted a plan outlining general guidelines for overhaul of the CAP. The proposals, compiled by the late Commissioner in charge of agriculture, Finn Gundelach, called for producers of surpluses to bear more of the costs of their disposal, possibly in the form of reduced direct aids and limits on intervention prices. A new approach to the Community's external agricultural trade policy for both imports and exports and intensification of "socio-structural measures" in less favored regions were also recommended.

Common fisheries policy.--In 1980, after 4 years of negotiations, EC members were still unable to agree on a common policy for allocating Community fishery resources. At yearend, the EC Fisheries Council remained divided on conditions of access to fishing zones (particularly French demands for access to British and Irish fishing grounds) and allocation among the Member States of the Community's catch quotas. However, during the year, the EC Fisheries Council did issue decisions on conservation measures having to do with the total allowable catches and the mesh size of nets.

International adoption of 200-mile fishing zones made it necessary for the Community to negotiate bilateral fishing agreements to define mutual fishing rights. Pushing demands for EC recognition of special fishing rights

1/ Primarily milk, beef and veal, and sugar.

2/ A tax on milk producers applied to production over specified levels.

3/ The 1980-81 agricultural package was contained in a general compromise agreement that included decisions on agricultural structures, the common organization of the market in sheepmeat, fisheries policy, and the United Kingdom's contribution to the Community budget.

for the United Kingdom in British coastal waters, the United Kingdom blocked ratification of several bilateral fishing agreements. In January 1980, the United Kingdom lifted reservations on these agreements, enabling the Council to authorize their signature. In December, after talks again stalled, the United Kingdom blocked signature of a new long-term bilateral agreement with Canada that would have reduced the EC tariff on imports of 20,000 tons of Canadian fish per year and permitted EC fleets to fish in Canadian waters. The agreement was very important to the German deep-sea fishing fleet, which depends heavily on Canadian fishing zones.

Preferential trading arrangements.--The European Community conducts most of its preferential trade and development aid within the context of the Lomé Convention, a blanket agreement with 60 1/ African, Caribbean, and Pacific (ACP) countries; the EC also has bilateral agreements with Mediterranean countries and gives preferential trade treatment to less developed countries under a generalized preference scheme.

The first Lomé Convention expired on March 1, 1980. Following a year of difficult negotiations, a new Lomé Convention (Lomé II) was signed in the fall of 1979 but was not ratified in time to enter into force when the old pact expired. 2/ The amount of aid provided under the new convention, changes in rules of origin, and escape-clause provisions, allowing EC participants to withdraw concessions if home markets were disrupted, or displeased ACP signatories. Community members and the required two-thirds of ACP participants ratified Lomé II by November 1980, and the agreement entered into force on January 1, 1981, the first day of the second month following completion of ratification procedures.

Transitional measures were adopted pending entry into force of the second convention. Some measures extended provisions of the first agreement, and others dealt with advance implementation of certain provisions of the second. Among measures from Lomé II implemented in advance were: (1) safeguard and consultation measures, (2) treatment accorded agricultural products, (3) changes in rules of origin, (4) protocols on rum and bananas, (5) a joint declaration on the origin of fishery products, (6) complementary financing of industrial cooperation, and (7) a Community declaration on the supply of available agricultural products.

During the year, negotiations were held with the countries linked to the Community by preferential agreements to adapt them to the new situation created by Greece's accession. Protocols amending agreements were concluded with Cyprus, Egypt, Israel, Lebanon, Jordan, and Spain. Arrangements were made to govern trade between Greece and other countries 3/ pending negotiations of protocols.

The Community's GSP (Generalized System of Preferences) program allows beneficiary countries limited exemption from customs duties for most industrial goods and certain agricultural products, subject to quotas or

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1/ Two countries, Zimbabwe and St. Vincent and the Grenadines, joined the Convention during 1980. The Republic of Vanuatu applied for accession in September, but procedures were not completed by yearend.

2/ For a description of Lomé II, see Operation of the Trade Agreements Program, 31st report, USITC Publication 1121, p. 123.

3/ Algeria, Morocco, Tunisia, Malta, Portugal, Syria, Turkey, and ACP ceilings. The first 10-year term of the EC's GSP expired at the end of 1980. A new 10-year scheme 1/ adopted in December contains significant changes. To limit benefits for highly competitive countries, global quotas and ceilings for more developed beneficiary countries were replaced by individual country limits on the volume of preferential imports. To expand benefits for "least developed" countries, the Community placed imports from those countries under Community ceilings instead of country quotas. The number of industrial products subject to quotas or ceilings was raised from 93 to 128 under the new system.

Relations with Japan.--Trade imbalances continued to cause tensions between the EC and Japan during 1980. According to official EC statistics, the EC-Japan bilateral trade deficit increased from $7.1 billion in 1979 to over $10 billion in 1980, as Japan's exports to the Community increased 30 percent and EC exports to Japan stagnated. European sources claimed Japan has launched an export drive directed at EC markets to help the Japanese finance increased oil import costs. Fears were expressed about possible trade deflection effects of any future U.S.-Japan agreements limiting U.S. imports of Japanese products, particularly of autos. Industries in the EC particularly hard hit by competition from Japanese imports included automobiles, electronic products, color television receivers, machine tools, and precision instruments. The worsening trade deficit and difficult economic situation led to intensified EC consultations with Japan on trade issues and to efforts toward developing a coordinated EC policy for dealing with Japan. In addition to official bilateral consultations, private sector EC-Japan consultations on automobiles were held in November.

The major block to a joint EC-Japan trade strategy is the existence of a complex network of restrictions on Japanese imports maintained by EC Member States as individuals. To adopt a joint policy, these restrictions would need to be eliminated. The "patchwork of separate national trade restrictions," and, in particular, certain residual quantitative restrictions on Japanese goods, were said to annoy the Japanese and prevent progress in trade discussions. 2/ On July 22, the Commission proposed that Member States agree to lift all residual discriminatory import restrictions on Japanese commodities if in response Japan would agree to expand its imports of processed agricultural products and other goods, and to exercise export controls, for 2 to 4 years, on certain sensitive commodities. The Council of the rejected the proposal but called for further study to formulate a joint EC strategy for dealing with Japan.

EC and Japanese officials met often during 1980. In October, the EC submitted a list of proposals to Japan to improve EC-Japan trade relations. The EC requested that Japan curb its exports to the Community, particularly in sectors where sharp increases have recently occurred. Japan was also requested not to seek to reduce its trade deficit by excessively boosting exports, to open its markets further without delay to imports of manufactured goods, and to refrain from adopting measures that would give other major trading partners more favorable treatment than that enjoyed by the EC. If those measures were taken, the EC suggested, further EC-Japan trade liberalization might be explored. The EC requested that Japan respond to these suggestions by November 25.

1/ Subject to an annual review of product coverage.

Japan's response, on November 17, denied Japanese culpability on all counts. Japan stated that "greater efforts" by EC entrepreneurs were needed to increase exports to Japan, maintaining that Japanese markets are open to EC exports. The Japanese statement recognized that "concern presently exists" in the EC due to "a rapid increase of imports from Japan in some sectors" during 1980, but stated that Japan "will continue to advise private enterprises not to export specific goods to the market of any region in a torrential manner." This, of course, implies that past policies would continue as before. Japan stated it has not and will not "take policies specifically aimed at reducing rapidly its current account deficits. . . in view of the current situation of the world economy." 1/ Japan also advocated improved economic relations and cooperation with the EC, including industrial cooperation and a common approach to the North-South dialogue as well as trade, and offered to study any EC proposals in that regard.

The Council of the EC, displeased with the Japanese response, issued a strong statement on November 25 "expressing serious concern at the present state of trade between Japan and the Community." The Council agreed on the need for an EC-Japan dialogue based on a common Community strategy. The statement reiterated many of the October proposals. To prepare for an EC-Japan dialogue on trade matters, the Commission of the EC called for a study to analyze Japan's exports to the Community and Japanese industrial and commercial strategy; future studies in conjunction with a continuing EC-Japan dialogue were planned. As a first step toward a joint EC-Japan policy, the Council adopted the principle that any moderation of Japanese exports should apply to the entire EC and not only to certain markets. Further discussions on trade issues between the European Community and Japan were planned for early 1981.

Cooperation agreement with the Association of Southeast Asian Nations (ASEAN).--A nonpreferential cooperation agreement negotiated in 1979 between the EC and ASEAN was signed in March 1980 and entered into force on October 1, 1980. The agreement was designed to promote cooperation in trade, economic, and development matters with provisions for joint activity in a wide range of sectors including energy, transport, science, and technology. The pact encouraged conclusion of future agreements on protection of investments, and the Community agreed to coordinate its activities on projects in South-East Asia with ASEAN members.

Agreement with Yugoslavia.--The EC and Yugoslavia signed a new cooperation agreement in April 1980, the third such agreement concluded since 1970. As in previous agreements, the EC and Yugoslavia granted each other most-favored-nation (MFN) treatment. A major goal of the new agreement was to reduce Yugoslavia's large trade deficit with the Community. Besides financial and economic cooperation provisions, the agreement provides for substantial trade liberalization measures. Of primary importance to Yugoslav negotiators were EC agricultural concessions, which included a larger EC quota for beef imports from Yugoslavia. Except for certain metal products and sensitive manufactured items, the new agreement allows duty-free entry of Yugoslav industrial goods. Financial and economic cooperation provisions included EC loans to Yugoslavia and increased mobility into the Community for Yugoslavian workers. Ratification of the cooperation agreement by Yugoslavia and the

1/ *Bulletin of the European Communities*, No. 11, 1980, p. 11.

member states of the EC is necessary before the agreement enters into force. In the meantime, trade and financial provisions of the agreement were implemented in advance under an interim trade agreement and an interim financial protocol. The new cooperation agreement was concluded for an unlimited period, but the trade segment of the new agreement will be reviewed in the fifth year of its operation. Eventual free trade between the EC and Yugoslavia is anticipated, depending on the pace of Yugoslavia's economic development.

Agreements with Romania.--The EC concluded two bilateral trade agreements with Romania during 1980. An agreement setting up a joint committee to discuss trade issues and economic relations was initialed in February. A reciprocal agreement on trade in industrial products (other than textile and steel products) was initialed in June. The agreement on industrial products trade, which is automatically renewable every year, provided for trade liberalization for certain products, opening of import quotas for other products, safeguard clause procedures, certain Romanian undertakings to expand and diversify purchases from the Community, and trade liberalization by the EC. Both agreements were signed in Bucharest, Romania on July 18. The EC has in effect other agreements with Romania limiting Romanian exports of steel and textiles to the Community.

U.S.-EC Bilateral issues

Most 1980 bilateral trade issues centered on industries in which the European Community has serious structural problems--steel, synthetic fibers, petrochemicals, and automobiles. In spite of major problems and a large U.S. surplus in bilateral trade, continuous U.S.-EC government contact throughout the year helped ward off protectionist pressures.

Steel.--As in 1979, the major U.S.-EC trade conflict in 1980 had to do with steel. On March 21, the U.S. Steel Corp. filed antidumping complaints against steel producers from seven Community countries, covering nearly all U.S. steel imports from the EC. The U.S. Department of Commerce then suspended the "trigger-price" mechanism 1/ for steel products, an action promised if U.S. Steel filed the complaints. On March 28, the ECSC Consultative Committee passed a resolution "calling on the Commission to do all it could to see that a solution was found to this problem before a trade war broke out between the Community and the U.S.A." U.S.-EC consultations on steel were held during the year. On September 30, the United States announced the withdrawal of U.S. Steel's complaints and the reintroduction of trigger prices. For a more detailed discussion of steel issues, see chapter I of this report.

Synthetic fibers and petrochemicals.--The EC has maintained that price controls on oil and natural gas give U.S. industry an "artificial advantage" in production of synthetic fibers and petrochemicals. Consultations on these and several other matters, held during 1980 under GATT mechanisms, are described in chapter II of this report.

1/ Steel products imported into the United States at prices below "trigger" levels are subject to antidumping investigations.

During 1980, the European Community had in effect or instituted antidumping or "anti-subsidy" procedures on the following products imported from the United States: lithium hydroxide, certain acrylic fibers, certain chemical fertilizers, pressure-sensitive paper, certain polyester yarn, vinyl acetate monomer, styrene monomer, orthoxylene and paraxylene, and certain texturized polyester fabrics. As is apparent, most actions were against petrochemical or synthetic fiber products.

The EC also objected to U.S. controls on exports of naphtha, a feedstock for both the European petrochemical and synthetic fiber industries. U.S. export controls on naphtha have been a persistent irritant in EC-U.S. relations since they were imposed during the 1973 oil crisis. Most European synthetic fiber producers use technology based on naphtha. In early 1981, President Reagan acted to decontrol oil prices and began the process required to end export quotas on naphtha. He also began to consider accelerating the timetable for deregulating natural gas prices. The actions were major steps toward eliminating the EC claims of the alleged energy cost advantages enjoyed by U.S. synthetic fiber and petrochemicals producers.

Automobiles.--Throughout the year, various European spokesmen repeatedly expressed concern at the adverse effects that U.S. restrictions on automobile imports "could have both on Community exports to the United States and in terms of a potential influx of Japanese cars into European markets." Specific concerns centered on U.S. safeguard actions during the year 1/ and on the possibility of a bilateral United States-Japan agreement restricting U.S. imports of Japanese autos. At U.S.-EC high-level discussions on trade issues in November, the EC advocated viewing the auto issue as a "trilateral U.S.-Japan-EC" problem, emphasizing that measures including all parties would be needed.

In fact, by early 1981 many individual EC countries had put into effect bilateral or unilateral measures limiting imports of Japanese cars. For several years, the United Kingdom has had an "understanding" limiting Japan to about 10 percent of the United Kingdom auto market. France employs nontariff barriers to limit Japanese imports to an "unofficial guideline" of about 3 percent of the auto market in France. Italy limits the Japanese to about 2,000 cars per year. Also, in early 1981 Belgium and the Netherlands took steps to limit imports of Japanese cars.

Tax on vegetable fats and oils and import limitations on nongrain feeds.--During 1979, the EC again began to consider informally taxing imported and domestic vegetable fats and oils, this time to cope with the olive oil surplus expected when Spain joins the Community. 2/ Taxes on vegetable fats and oils have been proposed in the past to deal with the EC dairy surplus by encouraging butter consumption. Discussion of the measure within the EC continued throughout 1980. Limits on imports of nongrain feeds--primarily soybeans, soybean meal, and corn gluten feed--were also suggested to cope with EC grain surpluses.

1/ See chs. I and V of this report for more information on the U.S. automobile case under sec. 201 of the Trade Act of 1974.

2/ Other sources claim that an olive oil surplus will not occur when Spain joins, stating that supply and demand will remain "essentially in balance" in the enlarged Community.

The United States strongly opposes EC adoption of such measures, maintaining that any tax on vegetable fats and oils would be considered a nullification and impairment of the GATT bindings on soybean products and would lead to a major U.S.-EC confrontation. The United States also objects strongly to measures against nongrain feed products, which would also impair GATT bindings on soybeans and other products. U.S. soybean exports to the EC are valued at nearly $3 billion annually.

Canada

The economic situation in 1980

Following 3 years of restrained economic growth, Canada entered a period of recession in the first quarter of 1980 from which it did not begin to recover until late in the third quarter. The recession was precipitated by weak export demand, significant inventory adjustment, and sharp declines in residential construction. The second quarter of 1980 was marked by continued deterioration in the Canadian export performance due in large part to the U.S. economic recession, negative private investment, and weak private consumption. Growth, which resumed in the third quarter, accelerated in the fourth quarter to make the strongest quarterly gain in output since early 1976. Despite the fourth quarter recovery, Canada's real GNP grew by only 0.1 percent during 1980.

The impact of the economic downturn was most evident among the goods-producing industries where output declined by 1.0 percent in 1980. The largest contributors to the decline were motor-vehicle manufacturing, residential construction, and related industries. Declines of a significant, but less severe, nature were recorded among manufacturers of rubber and plastics, textiles, clothing, and machinery and equipment. A decline in the production and distribution of most energy products more than offset a substantial increase in electric power generation. In contrast, output increased in agriculture, food and beverage manufacturing, metal and nonmetal mining, and primary metal production.

The 1.0 percent increase in the service-producing industries was the lowest annual growth rate recorded during the last 10 years. Financial institutions, services to business management, telephone systems, and accommodation services were among the major contributors to the growth.

Inflation was the dominant problem in the Canadian economy in 1980 and, most likely, will continue to be in 1981. The Consumer Price Index (CPI) advanced 10.1 percent from 191.2 in 1979 (1971 = 100) to 210.6 in 1980, whereas the core rate of inflation (CPI less food and energy) rose 9.4 percent. These rates are about 2 points below the OECD average rates. This does not necessarily imply a better economic performance: because of Canada's high degree of self-sufficiency in energy and its Government controls on energy prices, this component of the CPI rose only 15.7 percent between mid-1979 and mid-1980, compared with 38.6 percent in the United States and 27.8 percent in OECD-Europe. Excluding food and energy, however, the Canadian Consumer Price Index has been subject to the same inflationary pressures as in other countries, and, in fact, much of Canada's inflation is imported from other countries, especially the United States. 1/ This is because, in Canada, the ratio of total imports (goods and services) to GNP is higher than in many other countries--32 percent in 1980--and some 68 percent of these goods and services were imported from the United States. Thus, it is evident that the higher underlying inflation rate present in the U.S. economy is driving the underlying inflation rate in Canada and, in effect, setting a minimum level for Canada's price inflation.

Internal price pressures have also affected Canada's inflation rate. The most significant factor contributing to upward price pressure on Canadian prices in 1980 was the increase in unit labor costs. The unit labor cost in manufacturing (wages paid per unit of output) increased 11.3 percent in 1980. This was the result of a 9.9 percent increase in average weekly wages combined with lowered productivity. Industrial production actually decreased 1.6 percent in 1980, and the labor force grew by 0.3 million or 2.8 percent. Unemployment remained at 7.5 percent, the same as the average rate in 1979.

In monetary policy, the Bank of Canada followed a policy of gradually reducing the growth of the money supply in order to moderate inflation and to maintain interest-rate differentials with the United States, as necessary, to avoid extreme exchange rate movements. When Canadian interest rates, particularly short term, fall below comparable U.S. rates, large short-term capital outflows exert prompt downward pressure on the Canadian dollar.

The general weakness of the Canadian dollar in 1980 and the need for capital inflows to finance the current account deficit led the Bank of Canada to adjust Canadian interest rates to movements in U.S. rates. Although Canadian long-term corporate bond yields usually exceeded yields in the United States, Canadian short-term yields generally lagged U.S. yields, rising less sharply in the first and fourth quarters, but falling less quickly when the U.S. rate plunged to nearly 10 percent in the second quarter.

Overall, the Canadian dollar firmed slightly against the U.S. dollar in 1980, averaging 85.5 cents compared with 85.4 cents in 1979. By quarters, the exchange rate averaged 85.9 cents in January-March 1980, 85.4 cents in April-June, 86.3 cents in July-September, and 84.5 cents in October-December. The exchange rate deteriorated throughout the fourth quarter, averaging 83.6 cents in December. This weakness reflected not only the widening interest-rate differential in favor of the United States, but also the adverse effects of the Canadian Federal Government's newly announced National Energy Program on the investment climate and energy prospects in Canada. There was also an erosion of confidence engendered by the escalating confrontation between the Federal and provincial governments over energy policy and constitutional reform (see section on energy later in this chapter).

International performance

Canada posted a record $6.8 billion surplus in merchandise trade in 1980, virtually double the surplus for 1979. Recession in Canada, which caused a decline in domestic demand for imports, was the principal reason for the improved trade surplus. In volume terms, merchandise exports grew by less than 1 percent, and merchandise imports decreased 4.1 percent. The increase in the value of exports was attributable mainly to higher prices, particularly for raw materials.

In contrast to the overall Canadian export performance, exports of motor vehicles and motor-vehicle parts decreased 10.3 percent in nominal terms and 18.5 percent in real terms. This decrease reflected the declining demand in the United States, Canada's principal export market, for the large energy-inefficient automobiles that Canada produces. It is interesting to note that the share of motor vehicles and parts in total Canadian exports decreased steadily from 23.6 percent in 1978 to 14.0 percent in 1980, and the share of agricultural products and crude materials in total Canadian exports increased steadily from 26.2 percent to 30.0 percent over the same period.

The healthy merchandise trade surplus cut the current account deficit from $4.4 billion in 1979 to $1.3 billion in 1980, despite a growing deficit in the services account. The poor performance of the services sector was due, in large part, to ever-increasing interest and dividend payments abroad. In 1981, the deficit on the services account is expected to deteriorate further, primarily owing to pressure from a mounting debt service burden caused by additional borrowing, higher interest rates, and renewed depreciation of the Canadian dollar.

While all forecasts anticipate an increase in the services account deficit in 1981, predictions differ on the size of the overall current account deficit. The U.S. Embassy in Ottawa forecasts a marked increase in the size of the current account deficit reflecting deterioration in both the trade and the services accounts. The Embassy projects that in 1981, with a resumption of modest growth both in the United States and Canada, Canadian merchandise imports and exports will both grow in real terms, with import growth outpacing export growth. During the course of the year, the terms of trade, which were constant in 1980, are predicted to turn against Canada, causing some erosion in the merchandise trade surplus.

The OECD projects the Canadian current account to strengthen during 1981. This projection sees the possibility that Canada's terms of trade could develop favorably during 1981. Export price movements, which are likely to be more subdued in 1981 as world raw material prices respond to the weakness in industrial demand, would be balanced by continued weak import demand.

The Conference Board of Canada projects a 1981 trade surplus of about $5 billion despite a 1.4 percent decrease in the volume of exports. This will be caused by a drop in raw material prices, but will be offset by a decrease in imports since import demand will be even weaker than in 1980.

United States/Canada merchandise trade

The United States and Canada are each other's largest single trading partners, although the relevant shares decreased in 1980 compared with shares in 1979 (table 9). Canadian merchandise exports to the United States accounted for 61 percent of total Canadian exports in 1980, whereas Canada accounted for 16 percent of total U.S. exports. On the import side, 68 percent of Canadian imports in 1980 came from the United States, and 17 percent of U.S. imports came from Canada. Canada's trade with the United

Table 9.--Canadian imports, exports, and trade balances for selected countries and country groups, 1978-80

(In millions of U.S. dollars)

Country/region	1978	1979	1980
	Imports		
Developed countries:			
EC	3,898	4,764	4,715
Japan	1,910	1,842	2,384
United States	29,385	37,945	41,201
Other	1,171	1,484	1,749
Subtotal	36,364	46,035	50,050
LDC's:			
OPEC	2,544	2,949	1/ 4,457
Mexico	155	178	295
Other	2,297	2,951	2,828
Subtotal	4,996	6,078	7,580
NME's:			
China	80	143	132
U.S.S.R	26	49	51
Other	231	316	372
Subtotal	337	508	555
Total	41,697	52,622	2/ 60,743
	Exports		
Developed countries:			
EC	4,061	5,992	8,028
Japan	2,570	3,455	3,751
United States	31,006	37,493	41,065
Other	920	1,456	2,002
Subtotal	38,557	48,396	54,844
LDC's:			
OPEC	1,283	1,351	1/ 1,817
Mexico	182	201	419
Other	2,668	3,405	4,254
Subtotal	4,133	4,957	6,490
NME's:			
China	425	506	742
U.S.S.R	478	654	1,303
Other	487	604	852
Subtotal	1,390	1,764	2,897
Total	44,080	55,117	2/ 67,527

Table 9.--Canadian imports, exports, and trade balances for selected countries, 1978-80--Continued

(In million of U.S. dollars)

Country/region	1978	1979	1980
	Trade balance		
Developed countries:			
EC	164	1,227	3,313
Japan	660	1,613	1,367
United States	1,621	-451	-136
Other	-252	-29	253
Subtotal	2,193	2,360	4,794
LDC's:			
OPEC	-1,262	-1,598	1/ -2,640
Mexico	27	23	124
Other	372	454	1,426
Subtotal	-863	-1,121	-1,090
NME's:			
China	345	363	610
U.S.S.R	452	604	1,252
Other	256	288	480
Subtotal	1,053	1,255	2,342
Total	2,383	2,495	6,784

1/ Includes Oman.
2/ Figures do not add to total shown because the total includes special categories.

Source: Compiled from United Nations Series D trade data. 1980 data from Direction of Trade Statistics

Note: Because of rounding figures may not add to the total shown.

States was nearly balanced in 1980, showing a slight surplus in favor of the United States. 1/ This was the second straight year that Canada sustained a deficit in its trade with the United States after several years of surpluses.

The following tabulation shows the five leading U.S. imports from Canada by TSUS item numbers (in millions of U.S. dollars):

TSUS item No.	Description	1979	1980
475.15	Natural gas, methane, ethane, propane, butane	3,020	4,131
692.11	Passenger automobiles	4,025	3,815
252.65	Standard newsprint paper	2,249	2,579
605.20	Gold or silver bullion/ore	805	1,832
250.02	Wood pulp, rag pulp, and other pulps	1,404	1,610

These five items accounted for 34 percent of total U.S. imports from Canada of $41 billion. Other important Canadian exports to the United States in 1980 included crude petroleum, parts of automobiles, trucks valued over $1,000 each, and spruce lumber.

The following tabulation shows the five leading items exported to Canada by the United States, by 5-digit Schedule B numbers (in million of U.S. dollars):

Schedule B No.	Description	1979	1980
696.69	Parts of motor vehicles	3,573	3,180
692.10	Passenger cars	3,345	3,066
605.20	Gold bullion	827	1,016
521.31	Coal	980	905
475.07	Crude petroleum	429	779

These five items accounted for 22 percent of total U.S. exports to Canada of $41 billion. Other principal U.S. export items to Canada in 1980 included mechanical shovels; piston-type engines; machines for soil preparation; gold sweepings, waste, and scrap; and aircraft.

1/ The Canadian-U.S. trade figures cited in the table--Canadian imports of $41.2 billion and Canadian exports of $41.1 billion--are Canadian trade figures and differ significantly from corresponding U.S. figures on Canada, which show U.S. exports of $35.4 billion and U.S. imports of $42.0 billion. Differences in the published figures of the two countries arise for a number of reasons. These include nonreceipt of export documents, differences in the definition and valuation of trade, inclusion of transportation charges in the valuation of imports, the timelag between the recording of exports in the exporting country and the recording of the same flow as an import in the importing country, and the possibility that the country of destination shown by the exporting country may in fact differ from the actual importing country (as in transshipments).

National Energy Program

The most important 1980 policy development in Canada was the introduction of the National Energy Program. This program is expected to have widespread implications for United States/Canada bilateral relations, most particularly for U.S. companies that have invested in Canada.

Basic provisions.--Canada's National Energy Program (NEP), announced on October 28, 1980, comprises a complex series of taxes and incentives aimed at promoting conversion from oil use to natural gas, boosting exploration activity in frontier areas, encouraging development of nontraditional oil sources, and increasing Canadian ownership of energy resources with a view toward establishing energy self-sufficiency by 1990. New tax and pricing policies will be used to accomplish many of these goals. Under the plan, oil and gas consumption will be taxed to pay for Government purchases of foreign holdings in the industry and to provide investment incentives to Canadian energy companies. These taxes will vary depending upon what share of the company is Canadian owned. The overall effect of the new taxes will be to reduce the producers' share of oil and gas revenues from 45 percent to 33 percent. The Federal Government's share will increase from 10 percent to 24 percent and the producing province's share will decline slightly from 45 to 43 percent. The long-term energy pricing policy of the NEP established a "made in Canada" oil price--a blended price to the refiner of imported and domestic oil--that will be gradually raised during the 1980's to a level not exceeding 85 percent of the price of crude oil in the United States or internationally, whichever is lower. In addition, the regulated price of natural gas will increase less quickly than the price of oil to encourage the substitution of natural gas for oil. On an energy-equivalent basis, the price of natural gas is currently about 80 percent of the price of crude oil, and its relative cost is expected to decline.

Canadianization of industry.--One of the main goals of the NEP is to increase Canadian ownership and control of oil and gas production from less than 30 percent to at least 50 percent by 1990. Foreign multinationals (mainly U.S.), which hold 70 percent of Canada's energy assets, own 17 of the country's 25 top oil producers. The market value of these companies, which include Imperial Oil (70 percent-owned by Exxon), Gulf Canada (65-percent owned by Gulf Oil), and Amoco and Mobil (100-percent owned by their U.S. parents), is approximately $25 billion. To encourage Canadian ownership, the NEP will phase out the depletion allowance for domestic exploration expenditures outside the Canada Lands. 1/ In addition, the depletion allowance for expenditures on conventional oil and gas development will be eliminated. These will be replaced by a complex schedule of direct incentive payments that will be available only to firms with at least 50 percent Canadian ownership. Firms with at least 75 percent Canadian ownership will qualify for additional incentives.

In addition, although provinces will retain sole rights to the energy resources within their bounds, the Federal Government will automatically be given a 25-percent carried interest, without compensation, in every lease or

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1/ The areas under direct Federal Government control in the Yukon, Northwest Territories, and off Canada's coasts.

right on Federal lands (i.e., the Canada Lands). 1/ This will enable the Government "to direct development on these lands more effectively, to share more equitably in profits from future production, and to increase Canadian ownership." 2/

The Government of Canada also intends to acquire several of the large oil and gas firms that are currently foreign owned and foreign controlled. The Canadian Government has announced its intention to pay "fair and reasonable prices" for these acquisitions.

Finally, the NEP states that there will be strict requirements of the use of Canadian goods and services in exploration, development, and production programs on the Canada Lands, and in major nonconventional oil projects. The NEP further adds that "the Government will use its regulatory powers, too, in support of an expanded Canadian presence across the spectrum of industrial activities related to the petroleum boom."

Financing the NEP.--Before the new energy program was announced, the Royal Bank of Canada released a study projecting that $1.4 trillion would be needed over the next 20 years to finance all energy programs, including utilities, pipelines, petroleum, and coal mining. Of this amount, $350 billion would need to be raised in foreign markets. However, the NEP has created at least two problems for companies needing capital. First, the significant increase in taxes, which will cut industry's share of production income, will cut corporate cash flow and thus increase the need for external financing. Also, if companies reduce production, as there has been some indication that they will, their internal cash generation will be further reduced. Secondly, the Canadian capital market is about one-third the size of the U.S. capital market. In 1979, only $3.9 billion was raised in Canada's equity markets by all industries, with about 45 percent going to the oil industry. It may be difficult for the Canadian market to absorb the additional equity offered by firms that are trying to sell 50 percent of their shares to Canadians in order to qualify for Government incentives. Unless some of the capital is raised by external borrowing, it may crowd out other domestic investments. Moreover, with more firms searching for capital, Canadian firms coming to the debt market may face higher interest rates and stiffer credit terms.

Federal/Provincial dispute.--Federal and western Provincial governments have disagreed on energy policy for years, but the dispute escalated when the Federal Government announced the new tax policies of the NEP. Led by Alberta, which has 81 percent of Canada's natural gas, 87 percent of its conventional crude oil, and 71 percent of the country's coal reserves, the western provinces have contested the Federal Government's right to increase its share

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1/ Although the Government of Canada does not compensate directly for its 25-percent share, it does effectively contribute 25 percent of the exploration costs through its petroleum incentives program. The interest is "carried" only during the exploration phase. It may be converted to a "working" interest (i.e., the Government pays for its share) at any time up to a point 30 days after the Government authorizes a system for producing oil or gas from the relevant Canada Lands.

2/ The National Energy Program (Highlights), Department of Energy, Mines and Resources Canada (1981: Ottawa), p. 11.

of tax revenue at the expense of the industry and the provinces. Because the NEP represents a reduction in the control the provinces have over their resources, the NEP is seen as a direct challenge to provincial authority. Two days after the NEP was revealed, Alberta's provincial Premier announced that, on March 1, 1981, Alberta would begin phasing in oil production cutbacks, reducing output 15 percent by the end of 9 months. When fully implemented, this would reduce shipments to eastern Canada by a total of 180,000 barrels a day, requiring the country to double its current imports of high-priced crude oil. In addition, Alberta announced that it would withhold construction permits for some $20 billion in oil sands plants. The Province is also challenging in the courts the Federal Government's 35-cents per 1,000 cubic feet production excise tax on natural gas. On December 20, 1980, the Province of British Columbia announced that its provincially operated gas companies would not remit to the Federal Government the new Federal excise tax on natural gas and gas liquids. The Provincial energy ministry estimates that the escalating tax on domestic sales to be withheld will amount to some $175 million during 1981-83. However, the Province has not instituted a formal legal challenge to the excise tax.

<u>Effects of NEP on Canadian firms</u>.--The NEP tax policy is designed to increase Federal control, while reducing the industry's share of tax revenue. A number of Canadian oil companies, facing reduced cash flows, less attractive investment returns, and increased uncertainty, have already announced sizable cutbacks in planned exploration and development expenditures. For example, Amoco Canada Petroleum Co., Ltd., projected, in March 1981, that the government's NEP combined with the Alberta government's oil production cutbacks would result in a 56-percent decrease in the company's exploration and production spending in 1981. The company further stated that "the impact of the federal budget and national energy program ... is expected to reduce our projected 1981 cash flow by one-quarter and projected earnings by one-half."

As a result of production cutbacks, a number of drilling rigs have been idled, and some firms are moving money and equipment to the United States. The Canadian Association of Oilwell Drilling Contractors reported, on April 1, 1981, that 102 rigs had left Canada for the United States since October 15, 1980, with another 53 rigs committed to move out by April 30. The association estimated that the number of Canadian rigs operating in the United States could reach as high as 266 by the end of 1981. As a consequence of the movement to the United States, the association further estimated that up to 40,000 jobs could be affected.

Canadian firms are attracted to the United States despite poorer geological prospects because prices and profits in the United States are higher, the royalty structure is more attractive, and marketing is easier. One estimate, released in January 1981, showed that the net back, or after-tax profit, per barrel of oil produced was $12.94 in the United States compared with $2.25 in Canada. Several other studies have generally corroborated this estimate, showing returns in the United States from 3 to 5 times higher than in Canada. This higher profit results partly from higher U.S. prices--the U.S. spot price for a barrel of oil is at least two times the Canadian price. Also, firms operating in the United States pay only about 15 percent in royalties, compared with 40 percent in Canada. Furthermore, land-lease prices in Alberta are reportedly four times higher than in the United States. Firms are also attracted to the United States because they find it easier to market their product. Canada had a surplus of natural gas throughout 1980, and various restrictions, both in Canada and in the United States, softened the Canadian gas export market.

There are indications that some firms would have relocated their rigs in the United States even in the absence of the NEP. Officials in eastern Canada have blamed most of the exodus on the natural gas surplus, but western Canadian oil industry officials contend that it is the Government's energy program which is at fault.

Concerns of the United States and other foreign countries.--The United States, the United Kingdom, and the Netherlands have expressed concern within the OECD Committee on International Investment and Multinational Enterprises that the Canadian energy program will undermine efforts in the OECD to affirm the importance of national treatment. These countries argue that the Canadian incentive program, which discriminates against investors solely on the basis of nationality, will encourage the spread of economic nationalism to the detriment of efficient flows of international investment capital. Furthermore, these countries believe that when Canada, in 1976, subscribed to the OECD Declaration on International Investment and Multinational Enterprises, it made a fundamental commitment to national treatment and to its extension over time. Canada's NEP, it is argued, works against rather than for the extension of national treatment and will worsen the country's investment climate.

With respect to these points, Canada points out that in both 1976 and 1979, it made statements in the OECD Council interpreting the concept of national treatment in relation to foreign ownership and foreign investment in Canada. The interpretation stated that because of its "unique" situation, Canada on occasion might not be able to meet the standard of national treatment set forth in the Declaration on International Investment and Multinational Enterprises.

The United States is also concerned that NEP requirements for "use of Canadian goods and services in exploration, development, and production programs on the Canada Lands, and in major nonconventional oil projects" are inconsistent with the Canadian Government's obligations under article III of the GATT. In addition, if the "Buy Canadian" policy is implemented as stated in the NEP, it would have the effect of impairing the value of many significant tariff concessions negotiated by the United States during the Tokyo round. Affected by the NEP would be concessions made in the context of the so-called Machinery Program as well as tariff and nomenclature concessions made on 10 tariff items within the "Made in Canada" class of tariff items in the Canadian schedule. The value of U.S. exports potentially affected by the NEP is not insignificant: in 1979 U.S. exports to Canada of "oil country goods" were valued at $542 million.

High-level bilateral consultations concerning the NEP were held in Ottawa on November 7, 1980, and in Washington on December 17, 1980. In the period between the first and second consultations, the U.S. Government presented a diplomatic note to the Government of Canada detailing key U.S. concerns in trade, investment, and energy policy. Although the Canadian Government has responded to U.S. concerns by stating that Canada intends fully to honor its obligations under the GATT, the U.S. Government informed the Government of Canada in March 1981 that it intends to request formal consultations with the Canadian Government under the provisions of GATT Article XXII:1.

Foreign Investment Review Agency (FIRA)

With the enactment of the Foreign Investment Review Act in 1973, Canada modified its traditional open policy toward foreign investment by establishing a comprehensive screening procedure intended to insure that acquisitions and new investments by foreigners be of "significant benefit to Canada." Significant benefit is assessed in terms of five factors: (1) the level and nature of economic activity, including the amount of new investment, the additional processing of Canadian products, and export potential; (2) the degree of participation by Canadians; (3) productivity, industrial efficiency, technological development, and product innovation; (4) the effect on competition; and (5) compatibility with other national and provincial economic policy objectives.

The act requires the screening of takeovers of Canadian firms by "noneligible persons" (a foreign individual, a Canadian citizen who has settled in a foreign country, a foreign government, or a foreign-controlled corporation whether or not incorporated in Canada). The act also requires screening of new direct investments and expansions by existing foreign-controlled firms into new activities, but at the present time exempts from screening expansions by existing foreign-controlled firms into activities related to their current business. Noneligible persons wishing to invest in Canada must apply to FIRA, which evaluates investment proposals. Since its inception in 1974, FIRA has approved more than 80 percent of applications; however, in some cases it was necessary for a firm to improve (according to FIRA criteria) its original proposal before submission of its final application. 1/

During 1980, legislation was proposed which would expand FIRA's mandate. As set out in the Governor General's April 14 Speech from the Throne, this legislation would include amendments to the Foreign Investment Review Act to provide for performance reviews of how large foreign firms are meeting the test of bringing substantial benefits to Canada. Particular attention is to be paid to Canadian participation in management and equity, exports generated, research and development, technology transfer, autonomy of the Canadian subsidiary, and policies followed by companies in sourcing their supplies. The Speech from the Throne did not define how large firms would have to be in order to be subject to review, whether all existing large firms would be reviewed or only firms approved since FIRA's establishment, the frequency of the reviews, or the nature of the reviews. Next, under the legislation, large takeover bids by foreigners would be published before FIRA makes a decision to allow or disallow them. Finally, the legislation proposes to make financial assistance, probably through loan guarantees, available to Canadian-controlled firms that want to repatriate the assets of foreign-controlled firms in Canada or that want to compete with foreign firms for the takeover of Canadian business enterprises.

1/ Notes for a speech by the Honorable Herb Gray at a panel discussion on foreign investment in Canada at the Canadian Bar Association annual meeting

In view of this proposed broadening of FIRA's mandate, some concern has been raised in the United States over what appears to be FIRA's increasing tendency to negotiate commitments requiring a foreign firm to source in Canada a minimum share of total specified materials, components, merchandise, and services whenever the Canadian goods are competitive or reasonably competitive in terms of price, quality, assurance of supply, and so forth. If FIRA is indeed requiring private companies to give preference in purchases to Canadian goods, then Canada could arguably be violating its GATT obligations under article III. 1/

Banking in Canada

Institution of floating central bank rate.--On March 13, 1980, the Bank of Canada put into effect a floating bank rate system pegged to yields on 91-day Treasury bills issued by the Federal Government. The central bank will set its rate at one-quarter of a percentage point above the weekly average yield on the Treasury bills. Canada has not had a floating bank rate since 1962.

The floating bank rate is expected to accomplish several things, according to the governor of the Bank of Canada. For one thing, it will provide additional flexibility for avoiding any greater increase in short-term interest rates in Canada than is necessary to keep Canada's inflation rate in check. Secondly, the floating bank rate is expected to attract back to Canada some of the foreign capital that flowed out of the country when U.S. interest rates surged above Canadian interest rates. Third, the floating bank rate will relieve some of the public relations problems associated with frequent announcements of bank rate changes.

New Bank Act.--Following 3 years of delay and 6 years of review, a new bank act was passed in Canada at the end of 1980. The new act, which became effective on December 1, 1980, is the first revision since 1967. Under Canadian law, the bank act is to be revised every 10 years, but the 1967 act was extended several times when lawmakers were unable to reach agreement on a new act. In 1967, the key changes were the removal of the banks' interest rate ceiling, new freedom to make housing loans, and modification of the banks' reserve requirements.

The 1980 bank act contains four new basic policy changes, all of which were contemplated in the Canadian Government's 1976 White Paper on banking. First, the act is designed to increase competition in banking by providing easier entry of new entities into the banking system. Second, the act specifically provides for the entry of foreign bank subsidiaries into the Federal banking system, and at the same time limiting the role of foreign bank subsidiaries to insure that the Canadian banking system remains predominantly in Canadian hands. Third, the act establishes a Canadian payments association to insure a responsive universal payment system. Fourth, the act is designed to strengthen competition in financial markets by extending the powers of banks to financial leasing, factoring, and venture capital activity. However, banks are still limited in the amount of conventional mortgage lending they can do in their own name, and they have been kept out of automobile leasing, computer services, and certain other areas.

1/ The issue of "performance requirements" associated with investment is also under study in the OECD.

The new legislation will greatly affect the role of foreign banks in Canada. In the first place, foreign bankers, which had been operating as leasing and financing companies, will be permitted to apply for charters and to establish branches. However, the new legislation will make it virtually impossible for foreign bank affiliates to operate in Canada except as chartered banks since a nonbank affiliate of a foreign bank will be prohibited from engaging in a business of both lending and accepting deposit liabilities transferable by check or other instrument. Also, the law forbids the establishment of two separate entities by a single foreign bank if one of the entities is engaged in taking deposits and the other entity is engaged in lending money. The bank act further prohibits a nonbank affiliate of a foreign bank that engages in the business of banking from borrowing money or issuing market securities on the guarantee of its parent.

The entry of foreign banks into Canada will generally be determined on a case-by-case basis according to the following criteria: (1) the potential contribution the bank can make to competitive banking in Canada, and (2) the degree of reciprocity afforded Canadian banks operating in the applicant's home jurisdiction. Foreign bank subsidiaries, which are granted authority to commence and carry on the business of banking in Canada, are subject to periodic licensing requirements. These licenses are subject to renewal at least annually for the first 5 years after which time they are subject to review at least every 3 years.

The new law limits all foreign banks to an 8-percent share of total domestic banking assets. The 8-percent ceiling equates to an asset base of about $12 billion in 1981, with annual growth of about $1.5 billion. In December 1980 foreign bank affiliates operating in Canada had approximately $9.2 billion in Canadian currency assets. U.S. bank affiliates accounted for approximately two-thirds of this amount.

Some U.S. bankers have expressed concern that the 8-percent ceiling will not permit enough room to grow, especially since banks from Japan and other areas not currently represented will take up a large portion of the potential. One reason for concern is that reciprocity is customarily the basis for admitting foreign banks in all countries of the world. With no legal lending limit for foreign banks, the United States has had a more open market for foreign banks than many other countries, and Canadian and other foreign bankers have already captured 11 percent of the U.S. market. Indeed, two of Canada's largest banks--the Royal Bank of Canada and the Bank of Montreal--are rapidly expanding in the United States and have plans for adding more than $1 billion each to their U.S. portfolios in 1981. Consequently, the scope for providing reciprocity through further expansion of Canadian banks into the United States is somewhat more limited than in other countries where Canadian banks have not yet penetrated. 1/

The Foreign Investment Review Act, which requires governmental review and approval prior to establishing or substantially changing operations in Canada, will have no application with respect to foreign bank affiliates incorporating as chartered banks under the bank act.

1/ In January 1981, Canadian and Japanese officials signed an agreement in Tokyo under which 5 of the largest Canadian banks will be permitted to open branches in Japan, and Canada will allow an equal number of Japanese banks to

Canadian proposals on import policy

In July 1980, the Canadian Government circulated a discussion paper proposing changes to Canadian import legislation. The proposals deal with three broad issues: (1) antidumping and countervailing duties, (2) safeguards, and (3) responses to actions, policies, or practices of other governments which adversely affect Canadian trade in goods and services. The Canadian import legislation to which the proposals relate includes the Antidumping Act of 1968, the Customs Tariff, and the Export and Import Permits Act. If the legislation is enacted, a new act, entitled the Special Import Measures Act, would replace the present Anti-dumping Act and Section 7 of the Customs Tariff which deals with countervailing duties. The proposed legislation makes the following changes in Canadian import policy and procedures:

(1) expedites antidumping and countervailing duty investigations;

(2) terminates antidumping and countervailing duty investigations if exporters voluntarily increase prices to eliminate the margin of dumping or the effect of the subsidy;

(3) provides for the establishment of a "basic price" which would be determined by the "lowest normal price" in any supplying country where normal conditions of competition appear. If imports are priced below the basic price, an antidumping duty equal to the difference between the basic price and the export price would be levied;

(4) facilitates adding products to the existing import control list for monitoring purposes, following a report by the Textiles and Clothing Board (TCB) or the Anti-dumping Tribunal that imports of the product are causing or threatening to cause serious injury to Canadian producers;

(5) permits extension of the present 180-day time limit that surtaxes may stay in effect in cases where the Anti-dumping Tribunal or the TCB finds serious injury or threat of serious injury to Canadian producers;

(6) permits surtaxes to be imposed after certain quantities of a product have been imported in cases where it is evident that imports of a particular product would not cause or threaten serious injury unless and until import volumes reached a certain level;

(7) provides specific authority for Canada to take safeguard measures for balance-of-payments purposes; and,

(8) gives the Government the power to suspend or withdraw rights or privileges granted by Canada to other countries and to impose surtaxes, quotas (or a combination thereof), or to impose countervailing duties, in cases where it is deemed to be appropriate to respond to actions by foreign governments which either affect Canadian trade in goods and services or impair

U.S. and Canadian Government officials discussed these proposals on import policy in Ottawa on September 5, 1980, and subsequently in Geneva on October 22, 1980. In these discussions, the U.S. Government expressed concern about a number of the proposals. It was the position of the United States that certain of the provisions proposed for use in Canadian antidumping and countervailing duty proceedings would be inconsistent with Canada's international obligations under the Agreement on Interpretation and Application of articles VI, XVI, and XXIII of the GATT (the subsidies code) and the Agreement on Implementation of article VI of the GATT (the antidumping code). Specific aspects of the Canadian proposals about which the United States is most concerned include the proposal for a basic price system, the shortened time frame for preliminary determinations in dumping investigations (which can lead to high preliminary margins), the limited procedures for suspending antidumping investigations, and the lack of transparency in the procedures. No resolution of these issues was reached in 1980, and discussions have continued into 1981.

Meat Import Act introduced in Parliament

On November 24, 1980, Agriculture Minister Eugene Whelan introduced in the Canadian Parliament a Meat Import Act (Bill C-46). The act, subject to parliamentary approval, proposes to regulate imports of fresh, frozen, and chilled beef and veal. However, it is unlikely to receive Royal assent before the middle of 1981.

The proposed legislation would provide authority to set import quotas on beef based on the average level of imports in the 1971-75 period. Annual import quotas have been set administratively during the past 4 years (1977-80).

Under the Meat Import Act, quotas would be adjusted to reflect changes in beef consumption in Canada and in the level of cows and heifers slaughtered. The legislation is broadly based on the U.S. Meat Import Act of 1979 in that it is designed to limit imports when domestic beef production is high and to increase imports when domestic production is low.

Mr. Whelan claimed that the new import control system would serve the interests of both producers and consumers by helping to stabilize supplies and prices and by avoiding the past ad hoc policies of restricting beef imports that led to uncertainties for the Canadian meat industry and to Canada's trading partners.

The draft legislation provides that the import level determined by the countercyclical formula may be adjusted or suspended depending on any of the following considerations:

(a) the supply and price of beef and other meats in Canada;
(b) any significant changes in the conditions affecting Canada's trade in cattle or beef; and
(c) Canada's minimum access commitment under the GATT. (Under this international commitment, Canada agreed that beef import quotas would not drop below 139.2 million pounds in 1980, this level to be adjusted in subsequent years for changes in population.)

Canada is the only major beef-importing country without a permanent import policy with respect to volume and/or price levels of beef imports. Without an import control policy, Canada feels it is vulnerable to market distortions caused by beef import control programs in the United States, the European Community, and Japan. This is of particular concern because of the development of an international cattle cycle. Production in most beef-exporting countries has been synchronized, and this has tended to amplify world beef price and supply fluctuations.

Beef and veal imports into the United States are regulated under the Meat Import Law. Under a 1979 revision to this U.S. law, the meat import quota increases in proportion to the decline in domestic production. Conversely, during the years of herd liquidation, when U.S. domestic supplies increase, the formula automatically decreases the quota for imports. 1/ The Canadian Government fears that the effect of the change in the law on Canada may be to increase imports into the unregulated Canadian market when quotas are filled in the United States. Since U.S. and Canadian beef production cycles move in same directions, Canadian beef exports to the United States may then be reduced at the same time that Canadian production and imports are increasing. If offshore imports of beef into Canada are not reduced when Canadian production is high, Canada might shift from exporting beef to the United States to exporting live cattle, since live cattle are not covered in the U.S. law. This type of situation has already created difficulties for Canada in its trade with the United States, and has prompted some U.S. producer groups to call for import controls on live cattle in addition to the controls on beef.

United States/Canadian bilateral relations

Takeover of Asbestos Corp.--In an effort to create more jobs in Quebec, the Quebec government decided in 1978 to take over Quebec's second largest asbestos-mining company, Asbestos Corp. This company, which is 54.6 percent owned by General Dynamics Corp. of the United States, was selected for government acquisition because it is the only company engaged solely in asbestos mining and the only one that is not tied to processing operations outside Quebec.

Quebec, which has 40 percent of the world's asbestos reserves, has five foreign-controlled companies operating in the asbestos field. The Provincial government is concerned that these companies have done little except to mine the asbestos and to send it elsewhere for processing. By assuming a direct role in the industry, the government seeks to encourage greater processing in Quebec, with a target of 20 percent of asbestos mined in Quebec to be processed there by 1985, compared with 3 percent in 1978. The Province estimates that attainment of the goal would create 3,000 jobs.

Originally, the Quebec government planned to buy out the U.S. share of the company. General Dynamics was not interested in selling and argued that the sale would not create any jobs. This prompted the Quebec government to introduce a bill on December 15, 1978, empowering it to expropriate most of

1/ For more information see Operation of the Trade Agreements Program, 31st report, USITC Publication 1121, pp. 22-23.

the assets of the Asbestos Corp. The bill, passed in June 1979, left General Dynamics with the option to sell, and the U.S. company conceded that it would rather sell at a negotiated fair price than one set unilaterally by the Province of Quebec.

For a time, the two sides negotiated on a fair price, but the talks broke down in late 1979 with the two parties far apart on terms. The Quebec government offered $42 (Canadian) per share on the basis of a formula incorporating a basic price and the expected increase in profits by Asbestos Corp. during the next 20 years. General Dynamics rejected this offer, demanding $99.75 (Canadian) per share.

While the two sides negotiated on price, General Dynamics brought suit in a Quebec court challenging the constitutionality of Quebec's expropriation law. In late July 1979, the court ruled that the Quebec government could not expropriate the firm until the consitutionality of the expropriation law had been tested by the courts. Hearings on the constitutionality of the expropriation law began in the spring of 1980.

In early May 1980, after secret negotiations, the Quebec government reached agreement in principle with a substantially smaller firm, British-based Turner and Newall Ltd., to purchase an asbestos mine and an asbestos cement plant in Quebec as well as a building products subsidiary in British Columbia. The firms being sold by Turner and Newall are Bell Asbestos Mines Ltd. of Thetford Mines, Atlas Turner Inc. of Montreal, and Turner Building Products Ltd. of Mission, British Columbia. Bell Asbestos accounts for roughly 5 percent of asbestos production in Quebec, compared with more than 20 percent for Asbestos Corp. The company produces about 70,000 tons of asbestos a year, of which 37 percent is sold to developing countries and 21 percent to the United States. The agreed price was reportedly $35.5 million (Canadian).

Quebec ministers hinted that the purchase of Bell Asbestos (with mines contiguous to Asbestos Corp.) removed much of the urgency for acquiring all of Asbestos Corp.'s operations. However, the ministers said that the Quebec government still remained determined to acquire some of the assets of Asbestos Corp.

Meanwhile, a General Dynamics official revealed that the Quebec government had recently turned down a compromise proposal which would have enabled the government to obtain a majority interest in Asbestos Corp. within 5 years. The offer was allegedly rejected "for political motives."

On May 26, 1980, the Quebec Superior Court announced that it upheld the constitutionality of Quebec's laws giving the Province the power to expropriate the assets of Asbestos Corp. The company appealed the ruling, but no action was taken during 1980. 1/

1/ On Mar. 5, 1981, the Quebec Court of Appeal rejected Asbestos Corp.'s appeal of the lower court judgment upholding the Quebec government's right to expropriate the U.S.-controlled company's assets in the Province. The court also canceled an injunction that prevented any provincial takeover until a final court ruling. The company then asked the Supreme Court of Canada for permission to appeal the judgment, but was denied. On Mar. 31, 1981, the General Dynamics Corp. indicated that it was prepared to negotiate the sale of the Asbestos Corp. and avoid [illegible]

The proposed takeover has had a negative effect on Asbestos Corp.'s sales and profits. Sales of asbestos fibers, used mainly in the production of cement, decreased 33 percent to $144.4 million in 1980, compared with sales in 1979. Profits decreased from $17.7 million in 1979 to $2.5 million in 1980.

U.S./Canadian border broadcasting dispute.--The U.S./Canadian border broadcasting dispute arose as a result of a 1976 Canadian law (Bill C-58) which denies an income tax deduction to Canadian advertisers who contract with U.S. television and radio broadcasting stations located near the U.S.-Canadian border (border broadcasters) for advertising aimed primarily at the Canadian market. The Office of the United States Trade Representative initiated an investigation under section 301 of the Trade Act of 1974 on September 6, 1978 on the basis of a petition filed on behalf of 14 television licensees. Public hearings were conducted on November 29, 1978, and July 9, 1980, and consultations with the Government of Canada took place on August 15, 1979, in Ottawa.

The goal of the legislation, according to the Canadian Government, was to keep television advertising revenues within Canada in order to build up the domestic film and broadcast industries. According to one Canadian witness at the July 1980 hearings, the U.S. complainants' annual loss attributable to the tax law represents less than 1/200th of 1 percent of annual U.S. television revenue. Another Canadian witness stated that the U.S. complainants were making much ado about very little, since Canada, besides being America's largest television programing customer (worth about $60 million to $75 million annually), provides a massive balance in cultural trade in favor of the United States. In royalties, copyrights, trademarks, and film rental, he said, the United States paid Canada $24 million in 1977 and received $409 million.

The U.S. petitioners argued that, although some Canadian broadcasters have benefited from the law, it denies the U.S. border broadcasters access to a substantial portion of the advertising market in Canada, amounting to approximately $20 to $25 million annually, to which they previously had access. 1/

Two U.S. senators, Patrick Moynihan and John Heinz, filed statements in support of the broadcasters' position, and specifically endorsed one of the broadcasters' proposals--that the United States continue to deny Canada the relief it is requesting from a U.S. tax law that limits expense deductions for U.S. delegates attending conventions abroad.

On August 1, 1980, the President made the determination required by section 301 of the Trade Act of 1974 with respect to the case involving border broadcasting. The President's determination found the Canadian practice to be unreasonable. He said "the law, in effect, places the cost of attaining its objectives on U.S. companies and thus unreasonably and unnecessarily burdens and restricts U.S. commerce." He, therefore, proposed tax legislation to the Congress which would mirror the Canadian law (H. Doc. No. 96-369, September 9, 1980). This legislation would amend the Internal Revenue Code to deny a

1/ According to a study done for the Canadian Government, Canadian advertising revenues earned by U.S. television stations decreased from $18.9 million in 1975, the last full year before the tax bill went into effect, to $6.5 million in 1978. The study estimated that, by 1978, this revenue was $23 million lower than it would have been in absence of the tax deduction, otherwise allowable under the Code, for expenses of an advertisement placed with a foreign broadcast company and directed primarily to a market in the United States. This restriction would apply only if a similar deduction is denied to advertisers in the foreign country for the cost of advertising placed with a U.S. broadcast company and directed primarily to a market in the original country. It would, therefore, be applicable to Canada. The President did not support the proposal to limit tax deductions for business convention expenses incurred in Canada. The 96th Congress adjourned without acting on the President's proposal. It was resubmitted to the 97th Congress in the fall of 1981.

Buy America.--The 1965 Agreement Concerning Automotive Products between the Government of the United States of America and the Government of Canada states as part of its objectives that the governments of the United States and Canada will seek the ". . . creation of a broader market for automotive products . . ." and will seek ". . . liberalization of . . . automotive trade in respect of tariff barriers, and other factors tending to impede it with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries." The Canadian Government maintains that the automobile agreement covers government procurement of automobiles. In keeping with the interpretation, they have since 1965 accorded national treatment to U.S.-produced vehicles to be procured for the Government of Canada. The United States, on the other hand, has never given national treatment to Canadian-produced vehicles in government procurement contracts; "Buy America" rules are applied.

In 1978, the U.S. Congress enacted the Surface Transportation Assistance Act of 1978 (STAA). 1/ The law contained "Buy America" provisions which required the Urban Mass Transportation Administration (UMTA) to grant money for urban transit vehicles (railcars and buses) only to States and transit authorities that accepted bids for equipment that was "substantially" U.S. made. UMTA interpreted that to mean 51 percent. In addition to its 51- percent component rule, the law requires final assembly of the product in the United States. 2/

The Buy America provisions have had little impact on Canadian exports of certain vehicles. For example, Canada has regularly received exemptions, on a case-by-case basis, from the STAA's Buy America provisions for its exports of "current look" buses; these buses are no longer produced in the United States. In addition, Canadian railcars regularly meet or exceed the 50-percent U.S. content requirement of the STAA. Nonetheless, from the inception of the STAA, Canada has complained that the "Buy America" provisions are injurious to its export interests.

1/ Public Law 95-559, Nov. 6, 1978.

2/ As a signatory to the MTN Government Procurement Code, the United States eliminated the "Buy America" provisions on direct purchases by certain covered Federal agencies. The Buy America preference is still in effect in the Surface Transportation Assistance Act of 1978 because (1) the Department of Transportation is not a covered agency, and (2) the type of assistance given through the act is Federal grant-in-aid to State Governments, and this type of aid is not covered by the code. For more background information, see Operation of Trade Agreements Program, 31st report, USITC Publication 1121, pp. 132-33.

In early 1980, the Canadian Government intensified its efforts to gain a permanent waiver for Canada from the preferences of the STAA. The U.S. Government responded that it was willing to consider the possibility of dealing with Canada's problems with the STAA in the context of an agreement which would provide reciprocal benefits to the United States. The U.S. Government suggested that a protocol to the MTN Government Procurement Agreement might be an appropriate vehicle. In February 1980, Canada proposed that the two countries remove, on a bilateral basis, any buy-national preferences on federally-funded programs affecting transportation equipment including buses and subway cars. The United States did not accept this proposal on the grounds that it would provide more commercial opportunities for Canada in the United States, than for the United States in Canada. Negotiations on the issue continued throughout 1980, but no agreement was reached.

In spite of Canada's charges that Buy America provisions limit Canadian opportunities to sell in the United States, a Canadian firm was awarded one of the largest U.S. contracts given during 1980 for rail transit vehicles. In July 1980, Bombardier Inc., a Quebec manufacturer of snowmobiles, subway cars, and diesel locomotives, won a 50-million-dollar contract to build 57 passenger railway cars for New Jersey's mass transit authority. The contract includes an option for an additional 58 cars, which, if exercised, would raise the total value of the contract to over $100 million. This contract gives Bombardier a new opening in the U.S. mass transit market.

According to the company president, Bombardier's advanced technology in the mass transit field was a determining factor. In compliance with Buy America provisions, Bombardier will establish an assembly plant in the United States (at Barre, Vt.). About 100 U.S. jobs will be created. Also, by assembling in the United States, Bombardier will reduce customs duties, as duties on assembled cars are slightly more than two times the duty on partially assembled railcars. However, the high-technology engineering portion of the work will be exclusively Canadian, as will be the manufacture of car bodies. About 400 jobs are expected to be created in Quebec.

Bombardier competed for the contract with Vickers Canada Inc. and the Budd Co., the only remaining U.S. producer of subway cars. According to press reports, Bombardier's bid was 6 million dollars higher than Budd's, but the Budd Co. lost the contract when it balked at warranty specifications and the schedule of progress payments under the contract. The Budd Co. took the case to court, and obtained a temporary restraining order preventing the contract from being awarded to Bombardier. However, the Budd Co. lost its court case.

<u>U.S./Canadian agreements to lower duties on live cattle</u>.--During the course of the Tokyo Round of multilateral trade negotiations, the U.S. and Canadian Governments sought to harmonize import duties on a number of items with significant two-way trade. One of these items was live cattle between 200 and 700 pounds. However, the U.S. offer of concessions was contingent upon the completion of successful negotiations with Mexico on the same item, as Mexico has historically been the principal supplier in this category. When Mexico decided not to join the GATT, the United States became unwilling to bind in the GATT the duty on live cattle, though the possibility of an unbound reduction remained.

Because the United States had not implemented the duty reduction, Canada implemented its concession on live cattle in June 1980 on a temporary basis (to expire Dec. 31, 1980), and the United States took appropriate steps to implement its staging of tariff concessions on live cattle in the 200- to 700-pound range. On November 18, 1980, the U.S. Government sent a letter to the Canadian Embassy acknowledging the U.S. intent to implement a duty reduction on imports of live cattle retroactive to January 1, 1980, on an unbound basis. Should the United States increase the rate of duty above the agreed level, it was suggested that certain measures would be available to Canada. Canadian Government officials indicated that the U.S. decision not to bind the duty was acceptable and, on December 18, 1980, implemented the Canadian tariff concession on live cattle.

Canada extends coverage on chicken import quota.--On August 22, 1980, Canadian Government officials announced that, effective October 1, 1980, the coverage of the Canadian chicken import quota would be extended to include breaded and/or battered chicken. These quotas, which Canada had established in negotations with the United States in 1979, were set at 48.5 million pounds for 1980 and 52 million pounds for 1981. Processed chicken was previously not included in the annual quota and the amount of processed chicken entering Canada from the United States had risen from 295,000 pounds in 1977 to 2.2 million pounds in 1979. Products scheduled to be included under the quota are fully cooked chicken parts, breaded chicken, breaded precooked portion chicken, chicken patties, and fried chicken parts. The United States is the sole supplier of such breaded and battered chicken. The Canadian Government explained that the extended quota coverage was necessary to ensure orderly marketing and price stability in line with the framework of national supply management.

Japan

The economic situation in 1980

Real growth of the Japanese economy slowed from 6 percent in 1979 to about 4 percent in 1980 as Japan took measures to deal with inflationary pressures caused by the second oil crisis. Even so, Japan's growth was the highest of any of the major industrial countries. Despite flagging personal consumption resulting from anti-inflation measures, 1980 GNP reached almost $1,040 billion, reflecting a strong export performance and increased private capital investment.

The Japanese yen fell steeply relative to the dollar in early 1980, reaching a low of 264 yen per dollar in April. During the rest of the year the yen gained strength, reaching 203 yen per dollar by yearend. Appreciation of the yen reflected steady improvement in Japan's current account deficit progress at lowering inflation rates, and increased investment in Japanese financial markets by oil-producing states.

When the year began, Japanese wholesale prices were increasing at an annual rate of over 20 percent, consumer prices were rising at an 8 percent annual rate, and the yen was depreciating rapidly. The Japanese Government began a program of fiscal and monetary restraint that included reduced government spending on public works projects and limits on private credit expansion. The official discount rate was raised to a record high of 9 percent to control inflation and support the yen.

To avoid repetition of the period of double-digit inflation and severe recession that followed the 1973-74 oil crisis, spring wage increases for Japanese workers were held to about 7 percent, resulting in a decline in real income and weakening consumer demand. Japanese private industry made strenuous efforts to improve productivity and conserve energy. Appreciation of the yen helped to lower import prices. The above factors helped to bring Japanese inflation under control as wholesale prices stopped rising during the summer and began to decline in the fall. Consumer prices stabilized by midyear, rising 4.7 percent during January-June but only 1.3 percent during June-December.

Actions that brought inflation under control contributed to an economic slowdown during July-December 1980. Private consumption and housing investment were depressed, and business inventories were rising, although production and employment levels had not yet felt significant ill effects. The Japanese Government shifted policy to counter the trend before the decline worsened, adopting a more flexible monetary policy, increasing public works spending, and lowering the official discount rate (in August and again in November), but the slowdown continued into 1981.

International performance

Balance of payments.--After going into the red in the July-September 1979, Japan's 1980 current account deficit 1/ reached $10.8 billion in 1980, its highest level in history. Increased oil prices were a major cause of the deficit; Japan's imports of crude oil rose from $33 billion in 1979 to nearly $53 billion in 1980, even though the volume of oil imports actually decreased owing to weak economic expansion and rigorous conservation efforts by private industry. However, aided by strong export growth and the declining volume of oil imports, Japan's current account deficit improved throughout the year, registering a $1.2 billion surplus for the month of December.

Inflows of long-term capital, largely resulting from investment of OPEC surpluses in Japan, helped to moderate the effect of the current account deficit on Japan's overall balance of payments. The net flow of long-term capital into Japan rose from -$12.6 billion in 1979 to $1.8 billion in 1980.

Future oil price behavior will continue to affect the current account, but Japan has adapted well to past oil price increases, reducing oil imports by 10 percent during fiscal 1980. 2/ Japan's Ministry of Finance forecasts slightly slower growth for exports in fiscal 1981 3/ due to slumping world economies, trade frictions, and appreciation of the yen. However, the Long-Term Credit Bank of Japan predicts that during the second half of fiscal 1981 "Japan's exports are expected to begin recovery on the strength of international competitiveness as Western economies continue to slide." 4/

1/ Combined total of trade in goods and services and transfers.
2/ Apr. 1, 1980-Mar. 31, 1981.
3/ Apr. 1, 1981-Mar. 31, 1982.

Merchandise trade with major trading partners.--Japan's imports grew 28 percent to $141 billion in 1980, largely due to rising oil prices; imports from OPEC countries accounted for over 70 percent of the increase (table 10). Imports from the United States grew 20 percent in 1980, after growing 38 percent the previous year; Japanese imports from other developed countries increased only 11 percent.

Japanese exports increased 27 percent in 1980, exceeding $130 billion by yearend. Exports to the European Community showed a large increase (32 percent), contributing to growing EC-Japanese tension. Japanese exports to the United States increased 20 percent, or about the same rate as Japanese imports from the United States.

Japan's merchandise trade balance swung from a surplus of almost $19 billion in 1978 to a $7 billion deficit in 1979; in 1980, the trade deficit grew 51 percent to nearly $11 billion. Strong growth in export volume helped to some extent to compensate for increases in import prices. However, large oil price increases in the past 2 years pushed growth in the value of imports well above growth in the value of exports. Japan's OPEC trade deficit grew 72 percent in 1980, reaching almost $40 billion. Surpluses with EC countries, the United States, and nonoil-producing developing countries helped counterbalance Japan's OPEC deficit. Japan's trade surplus with the United States grew 20 percent in 1980 after declining 41 percent in 1979. Japan's 1980 trade surplus with EC countries grew 66 percent over what it was in 1979, surpassing that with the United States by 21 percent.

Most sources indicate that Japan's future trade balance situation will be closely linked to oil price increases. Japanese sources 1/ have predicted some moderation in Japan's exports, particularly during the first half of fiscal 1981. 2/ Import growth in value terms will mainly depend on future oil and raw materials prices; but Japan made progress during 1980 in energy conservation, reducing the quantity of oil imports by 10 percent.

Major U.S. exports to Japan in 1980 were seed for planting purposes, coal, logs, soybeans, aircraft, wheat, cotton, grain sorghum, and aluminum. Top 1980 U.S. imports from Japan were motor vehicles, tape recorders, glass-working machines, and electronic tubes (see appendix tables).

Major policy developments affecting trade

New Foreign Exchange and Foreign Trade Control Law.--Over the last few years, Japanese authorities have gradually liberalized Japan's exchange control structure. Recent passage by the Japanese Diet of a New Foreign Exchange and Foreign Trade Control Law, which became effective December 1, 1980, continued this trend. Under former laws, all foreign exchange transactions and foreign direct investments in Japan were prohibited except when specifically authorized by individual cabinet orders or ministerial ordinances.

The new law has made foreign exchange transactions and foreign direct investment virtually free, at least in principle. The law gives Japanese residents unlimited freedom to exchange yen for foreign currencies for deposit

1/ Japan's Ministry of Finance, Long-Term Credit Bank of Japan.

Table 10.--Japanese imports, exports, and trade balances for selected countries and country groups, 1978-80

(In millions of U.S. dollars)

Country/region	1978	1979	1980
	Imports		
Developed countries:			
EC	5,876	7,342	7,876
Canada	3,182	4,084	4,751
United States	14,805	20,465	24,567
Other	7,473	9,232	10,309
Subtotal	31,336	41,123	47,503
LDC's:			
OPEC	24,534	36,325	1/ 58,489
Mexico	356	483	939
Other	18,597	26,723	25,120
Subtotal	43,487	63,532	84,548
NME's			
China	2,030	2,955	4,346
U.S.S.R	1,409	1,869	1,871
Other	469	630	670
Subtotal	3,908	5,454	6,887
Total	78,731	110,108	2/ 141,257
	Exports		
Developed countries:			
EC	11,097	12,685	16,738
Canada	1,871	1,738	2,449
United States	25,112	26,598	31,905
Other	6,572	6,715	8,577
Subtotal	44,652	47,736	59,669
LDC's:			
OPEC	14,113	13,363	1/ 18,903
Mexico	639	841	1,228
Other	31,343	33,503	34,676
Subtotal	46,095	47,707	54,807
NME's:			
China	3,049	3,699	5,109
U.S.S.R	2,502	2,461	2,795
Other	1,203	1,361	1,556
Subtotal	6,754	7,521	9,460
Total	97,501	102,964	2/ 130,489

Table 10.--Japanese imports, exports, and trade balances for selected countries and country groups, 1978-80 (Continued)

(In millions of U.S. dollars)

Country/region	1978	1979	1980
	Trade balance		
Developed countries:			
EC	5,221	5,343	8,862
Canada	-1,311	-2,346	-2,302
United States	10,307	6,132	7,338
Other	-901	-2,517	-1,732
Subtotal	13,316	6,613	12,166
LDC's:			
OPEC	-10,421	-22,962	1/ -39,586
Mexico	283	358	289
Other	12,746	6,780	9,556
Subtotal	2,608	-15,824	-29,741
NME's:			
China	1,018	744	763
U.S.S.R	1,093	592	924
Other	734	731	886
Subtotal	2,846	2,067	2,573
Total	18,770	-7,144	2/ -10,768

1/ OPEC plus Oman.
2/ Total imports and exports are IMF estimates; subtotals do not add up to listed totals, because totals include special categories.

Source: Compiled from United Nations Series D trade data and Direction of Trade Statistics, International Monetary Fund.

(a 3 million yen limit had been in effect previously), allows Japanese banks to borrow and lend foreign currencies at home and abroad without restrictions, gives Japanese companies greater freedom to borrow abroad, and eases limits on foreign ownership of Japanese securities. However, the new law contains a safeguard clause that provides for limits on capital transactions if Japan's balance of payments is deteriorating, if there are large fluctuations in the value of the yen or other currencies, or if large transfers of funds between Japan and foreign countries adversely affect domestic money or capital markets.

Liberalization of Japanese exchange controls could have important long-run implications for yen exchange-rate volatility, exchange-rate management, domestic monetary policy, and the "internationalization" of the yen. Capital movements, mainly in response to exchange rate differentials, have amplified the large swings in the value of the yen that have occurred in recent years. For instance, large movements in interest rate differentials between Japan and the United States and increased demand for yen-denominated assets (especially on the part of OPEC investors) have contributed to fluctuations in Japanese capital flows. Inability to routinely control capital flows may also make control of the domestic money supply difficult, especially if extensive exchange market intervention is used to moderate fluctuations in the yen. However, the liberalization process may enhance the use of the yen as an international currency, particularly its use as a reserve currency.

In addition to effects on foreign exchange controls, the new law may have substantial impact on foreign investment and trade practices in Japan. Requirements for certifying exports and declaring imports through a Japanese foreign exchange bank were eliminated. But "exceptions" and provisions allowing government withdrawal under a great variety of circumstances of the "freedoms" provided by the law have caused uncertainty about whether, in fact, the measures will produce significant liberalization.

For many years Japan has faced criticism over restrictions on foreign investment in Japanese firms. Foreign equity participation under the old guidelines was generally limited to 25 percent of a Japanese company. In theory, the new law allows unlimited foreign equity participation in all Japanese firms except those on an "exceptions list" of vital industries. Japanese authorities have stated that "the current legal system of prohibition in principle shall be altered to one of freedom in principle," but a Japanese Finance Ministry official has said that "[w]e should not expect any dramatic or sudden changes. It will take time for the principle of freedom to gradually expand." 1/

Policy developments related to MTN implementation.--By January 1, 1981, Japan had begun implementing the tariff concessions and the six agreements on nontariff measures negotiated during the Tokyo round of Multilateral Trade Negotiations. Japanese tariff concessions reduced duties by an average of 46 percent on 2,600 industrial goods categories imported from the United States. Japan also made important agricultural concessions, expanding the quota on high quality beef by 6,800 metric tons to 16,800 metric tons and the quota on oranges by 30,000 metric tons to 45,000 metric tons. By 1983 the quotas are scheduled to expand further to 30,800 metric tons on beef and 82,000 metric tons on oranges.

On June 2, 1979, the United States and Japan issued a joint statement on the MTN Government Procurement Agreement and other MTN-related matters. 1/ Subsequently, during 1979 and 1980, the two countries held consultations that led to negotiated settlements of the issues left pending in the June 2 agreement.

Consultations on the MTN Government Procurement Agreement and on access for U.S. producers to Japanese tobacco markets, pursuant to the joint statement, were favorably concluded in 1980. The June 2 joint statement also specified that, as part of implementation of the MTN Agreement on Technical Barriers to Trade (Standards), Japan and the United States would negotiate an accord on Japan's testing and certification procedures prior to January 1, 1980. A U.S.-Japanese joint statement on standards was issued on December 7, 1979, 2/ and consultations under that accord were held during 1980.

Government procurement.--A dispute over whether and to what degree the Japanese company Nippon Telegraph and Telephone Public Corp. (NTT) would be subject to the Government Procurement agreement was a major trade issue in 1980. NTT, which has absolute authority over procurement for the domestic Japanese telephone and telecommunications network, maintained that foreign equipment was inferior in performance to Japanese-made equipment and that opening the bidding process to foreign suppliers would allow proprietary information to become public. The United States insisted that NTT procurement of telecommunications equipment should be brought under the terms of the Government Procurement agreement, and that the United States be allowed to have access to the entire Japanese telecommunications market. A compromise solution was reached in December 1980. The agreement is discussed in more detail in chapter II of this report.

Tobacco.--The Japanese tobacco industry is controlled by the Japanese Tobacco and Salt Public Corp. (JTS), which administers pricing, distribution, marketing, and advertising of domestic and imported tobacco in Japan. U.S. objections to Japanese restrictions on imported tobacco have been the subject of two investigations under section 301 of the Trade Act of 1974, 3/ a complaint under provisions of the GATT, 4/ and a "statement of principles" in the December 1979 joint statement on standards.

1/ See Operation of the Trade Agreements Program, 31st report, USITC Publication 1121, p. 143, for a description of the joint statement of June 2, 1979.

2/ For a description of the Dec. 7, 1979 joint statement on standards see Operation of the Trade Agreements Program, 31st report, ibid., p. 144.

3/ Ibid., p. 19.

4/ Ibid., p. 74 and chapter II of this report.

On November 21, 1980, after nearly 2 years of difficult negotiations, Japan announced a series of steps designed to allow greater market access to U.S. producers of manufactured tobacco products. Japan agreed to reduce the tariff on cigarettes, cigars, and pipe tobacco; allow an increase in retailers' profit margins on imported tobacco products (designed to equalize retailers' profit margins on imported and domestic tobacco products); take measures to reduce the price differential between imported and domestic cigarettes; increase the number of retailers which may handle imported tobacco products; improve test-marketing procedures for tobacco imports; and permit U.S. companies to advertise in Japanese language media for the first time.

Japan and the United States agreed to establish a study group to assess the market situation of manufactured tobacco products in spring of 1983. U.S. tobacco producers estimated that the measures would likely increase the U.S. share of the Japanese market for manufactured tobacco from 1 percent to about 5 percent.

Standards.--On January 1, 1980, the MTN Standards agreement entered into force. In March, the Japanese Diet revised the Japanese Industrial Standards Act to bring it into comformity with the agreement, and on April 23, 1980, the Diet ratified the Standards agreement, making its provisions part of Japanese law.

The purpose of the Standards agreement is to eliminate the use of standards and certification systems as an impediment to trade. To bring Japanese legislation into conformity with the agreement, in March 1980 the Diet approved legislation to open the Japanese Industrial Standards Marking System (the JIS Marking System) 1/ to foreign manufacturers. "Although JIS marks are entirely voluntary and not required by law, in practice many (Japanese) government agencies regard them as mandatory for procurement and regulatory compliance." 2/ To receive permission to use the JIS stamp, foreign or domestic factories must be inspected by the Minister in charge of the appropriate product area or his designated representative. The interval for periodic review of Japanese Industrial Standards was increased from 3 to 5 years to bring Japanese practice into conformity with international standards.

In May 1980, after April consultations with the United States on auto issues, Japan presented a package of measures designed to facilitate entry of U.S. automobiles and auto parts into the Japanese market. Included in the package were measures for liberalized standards and inspection procedures. The measures included more liberal requirements for test equipment and procedures, certification of date of manufacture, catalytic converter replacement, heat shielding, digital speedometers, documentation, and use of representative vehicles in automobile inspections.

1/ The JIS Marking System was established by the Japanese Industrial Standards Act to authorize manufacturers that are specifically approved by the relevant Minister to stamp the JIS mark on commodities that meet Japanese Industrial Standards.

2/ Report of the Japan-United States Economic Relations Group, The Japan-United States Economic Relations Group, January 1980, p. 59.

Japan and the United States held bilateral discussions during 1980 on measures taken by Japan to fulfill commitments made in May concerning automobile standards-related issues; implementation of the Standards agreement; the December 7, 1979, joint statement on standards; and product-specific areas of agricultural chemicals, 1/ processed foods, and cosmetics.

On December 19, 1980, as part of the agreement on placement of Nippon Telegraph and Telephone Public Corp. (Japan's Government-owned telecommunications company) under coverage of the MTN Government Procurement Agreement, Japan and the United States initialed an "interconnect" agreement designed to reduce technical barriers to trade in the telecommunications industry. Such an effort was called for in the June 2, 1979, joint statement made by Japan and the United States. The agreement, which is designed to improve mutual understanding of technical standards in telecommunications industries in Japan and the United States and access to one another's markets for telecommunications products, is described in chapter II of this report.

In bilateral discussions on standards held in early 1981, a U.S. representative summarized in general terms the major remaining standards-related issues that affected U.S. manufacturers. These were access to information, acceptance of test data generated in the United States, consideration of the equivalency of U.S. standards to Japanese standards, procedures for obtaining official approval, and the ability to appeal decisions. Negotiations on these matters were scheduled to continue during 1981. More specific standards-related topics that required continuing consultations were technical discussions on processed foods, cosmetics, and standards of the American Society of Mechanical Engineers (requested by Japan). Consultations will also continue on automobile standards and the interconnect agreement on telecommunications equipment standards. U.S. negotiators noted that the interconnect agreement was a very important area in current standards negotiations and asked to be provided with a list of NTT's implementation measures. They also asked for information on Japanese progress in establishing type-approval 2/ procedures for U.S. products. Japanese representatives said that NTT was working with the U.S. embassy on plans for a seminar to be held in the spring of 1981 to make U.S. firms familiar with Japanese technical requirements.

Bilateral issues and policy developments

The Joint U.S.-Japan Trade Facilitation Committee.--The Joint U.S.-Japan Trade Facilitation Committee (TFC) was established in September 1977 by the U.S. Department of Commerce and Japan's Ministry of International Trade and Industry (MITI). The TFC provides a forum for resolving U.S. exporters' complaints about Japanese trade practices or procedures that impede market

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1/ The talks led to an agreement by Japan to accept U.S. test data for agricultural chemicals on a case-by-case basis until Japan is able to implement its Good Laboratories Practice (GLP) System.

2/ Approval of a group of similar products based on a sample.

access for U.S. products 1/ and participates in other trade promotion activities. Many major bilateral issues were first highlighted in market access procedures under TFC auspices. Among these were procurement policies of Nippon Telegraph and Telephone Public Corporation; restrictions on tobacco imports of Japan Tobacco and Salt Public Corp. (JTS); Japanese requirements for testing and approving U.S. electrical appliances and pleasure boats; inspection and registration procedures for imported passenger cars and trucks; and standards-related problems in the areas of agricultural chemicals, processed foods, and cosmetics.

As of December 1980, a total of 93 market access complaints by U.S. firms had been brought to the Commerce TFC staff for investigation. By early 1981, 22 cases had been formally presented to the Japanese side of the TFC for relief; of these, 18 were favorably resolved, 1 was denied, and 3 remained under consideration. A number of other cases were resolved informally without the need to raise them to the level of formal TFC cases. In the past year, the TFC has emphasized large-scale generic cases covering the problems of entire industries. Because these generic cases often subsume a number of individual cases, there has been a dropoff in individual case activity. Generic cases sometimes involve bilateral consultations on various trade policy issues, and are pursued "in conjunction with officials from USTR 2/ and those involved with MTN followup." 3/

In 1980, the TFC provided staff support for generic market access cases involving issues related to the December 7, 1979, joint statement on standards. Standards-related bilateral consultations on agricultural chemicals, processed foods, and cosmetics were initiated with Japan as a result of TFC work in developing generic cases in these areas, and the TFC contributed further work in support of the consultations.

In another generic case, after two years of TFC efforts, on December 26, 1980, Japan's Minister of Posts and Telecommunications announced eased restrictions on access for U.S. companies to Japanese computer timesharing markets. The new rules allow U.S. companies to offer Japanese customers access to their full range of U.S.-based computer centers. Under the previous rules, each U.S. firm could offer services from a single center only, which severely restricted operations in Japan; one U.S. company estimated that restriction to one data-processing center had limited its business volume to 10 percent of potential service. 4/

As part of an effort to significantly increase purchases of U.S.-made automobile parts by Japanese companies, the Japanese Government sent an automobile parts buying mission to the United States in September 1980. 5/ The TFC has set up a 2-year mechanism to monitor the results of the mission and to provide a forum for considering problems.

1/ For a description of the types of trade impediments brought to the attention of the TFC see Operation of the Trade Agreements Program, 31st report, USITC Publication 1121, p. 147.

2/ Office of the United States Trade Representative.

3/ United States-Japan Trade Report, Subcommittee on Trade of the Committee on Ways and Means, Sept. 5, 1980, p. 19.

4/ Ibid., p. 18.

5/ See ch. I of this report.

U.S.-Japan Trade Study Group.--The United States-Japan Trade Study Group (TSG), organized in fall 1977, is a bilateral group of volunteers from the U.S. and Japanese Governments and business communities in Tokyo. From its location in Japan, the TSG works in conjunction with the Trade Facilitation Committee, pursuing broader trade issues connected with specific problems before the TFC. The mission of the TSG is to identify and analyze barriers to trade with Japan, to recommend methods to remove trade barriers, and to encourage efforts by U.S. companies to gain a position in the Japanese market through trade promotion programs. The TSG is composed of four committees: a Generic Program Committee (GPC), a Products Program Committee (PPC), and two committees which deal with TSG communications with business communities and trade promotion activities.

In April 1980 the TSG released a report on its activities. The report concurred with the "Wisemen's Group" report (see next section) about basic structural problems that inhibit U.S. exports to Japan, stating that "total elimination of nontariff barriers would not have a dramatic effect on U.S.-Japan trade" and that "there are more fundamental and difficult steps to be taken to reduce the trade imbalance, particularly on the side of the United States." The report also asserted that "any long-term improvement in the bilateral trade imbalance will depend more on improved performance by both U.S. business and government in promoting exports than on the removal of remaining Japanese nontariff barriers."

The Group's Generic Program Committee was directed to concentrate on nontariff barriers which are not specific to any one product category. The GPC has centered attention on technical barriers to trade and customs related problems, with particular emphasis on Japanese compliance with MTN agreements on Technical Barriers to Trade and Customs Valuation. 1/

The GPC section of the TSG report suggested that U.S. businessmen should make an effort to join the Japanese industrial associations that Japanese standards-setting ministries rely on for recommendations. 2/ The report mentioned that "the Japanese government has recently made several changes in standards-writing procedures to make it easier for foreign companies to participate in or comment on the (standards-writing) process."

The TSG Products Program Committee (PPC) concentrates on market access issues dealing with specific product areas. Task forces have been established for agricultural chemicals, electrical appliances, processed foods, automobiles, health care products, and forest products. The TSG report outlined past MITI changes on standards-related requirements for electrical appliances. 3/

1/ Japanese implementation of the MTN agreements is discussed in ch. II of this report.

2/ For example: The Japan Society of Mechanical Engineers (JSME), the Japan Society of Automobile Engineers (JSAE).

3/ See Operation of the Trade Agreements Program, 31st report 1979 . . . , USITC Publication 1121, p. 148.

Rice.--Japan's subsidized rice exports became an important bilateral trade issue during 1980. A huge rice stockpile in Japan has resulted from domestic price supports, which are set at four to five times the world price for rice. In 1979, Japan began a rice disposal program using export subsidies to dispose of large quantities of stockpiled rice. In the past, Japan has sold little or no rice on world markets, but in 1979, Japanese rice sales rose to 575,000 metric tons, 5 percent of world trade in rice.

The United States is the world's largest rice exporter, and during 1979 U.S. rice producers began complaining vigorously that subsidized Japanese sales were cutting into their traditional markets, displacing U.S. rice export sales, and depressing world prices. In April 1980, one week before scheduled bilateral discussions on rice, the U.S. Rice Millers' Association filed a complaint under section 301 of the Trade Act of 1974 asking that the President seek elimination of Japanese export subsidies for rice.

After holding bilateral consultations in April 1980, Japan and the United States reached an understanding concerning Japan's rice export levels for fiscal years 1980-83. 1/ Japan agreed to limit its exports of surplus rice to a total of 1.6 million metric tons during the 4-year period. Rice exports in the current fiscal year (April 1980-March 1981) were to be held to 420,000 metric tons, the following year to 400,000 metric tons, and the subsequent two years to 390,000 metric tons each. Stricter limits were placed on countries which the United States traditionally supplies with rice, such as South Korea and Indonesia. Provision was made for expanded grant aid shipments when necessary, and Japan agreed to hold technical consultations with the United States on the basis for pricing Japanese rice for export. The Rice Millers' Association withdrew its complaint soon after this understanding was reached.

In 1980 (calendar year) Japan exported 640,000 metric tons of rice (624,000 metric tons during April 1980-March 1981), exceeding agreed limitations. After bilateral consultations, the United States agreed to allow sale of 88,000 metric tons of rice to South Korea to be exempted from the FY 1980 ceiling because of exceptional circumstances. U.S. rice growers complained about the expanded shipments and requested stricter adherence to limits specified in the understanding.

"Annual talks will be held to determine the export volume for every year after 1980 and to estimate the world's supply-demand situation. If the United States-Japan 'understanding' is followed, the United States agreed not to enforce 'reprisals' against Japan as demanded by U.S. rice millers." 2/

Agricultural consultations.--"Consultation and exchanges of information on the supply and demand situation for agricultural products that figure in bilateral trade" were called for by the Carter-Ohira May 2, 1979, communique mentioned earlier. Thus, in December 1980, the United States and Japan held their second annual round of bilateral consultations on agricultural issues. The supply-demand situation and trade outlook for the coming year for feed grains, soybeans, and wheat (the major commodities in bilateral agricultural trade) were discussed. The tightening world grain supply-demand situation has

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1/ Apr. 1-Mar. 31 is the Japanese fiscal year.
2/ United States-Japan Trade Report, Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, Sept. 5, 1980, p. 60.

led Japanese Government officials to express interest in replacing the 3-year bilateral understanding on feed grains, wheat, and soybeans that expired in 1978. However, no substantive discussions on a new understanding were held during the consultations due to the pending change of administration in the United States. After discussing Japanese requirements, the U.S. delegation assured Japan that its needs for feed grains, wheat, and soybeans in the current marketing year would be met.

Leather.--In February 1979, Japan and the United States reached an understanding on easing Japanese restrictions on imports of U.S. leather for the 3-year period beginning April 1, 1979. Japan agreed to enlarge its quota of dollar-denominated import licenses to permit entry of 22.5 million square feet of leather from the United States during the year ending March 1980, with a 10 percent increase in each of the next 2 years.

Following the understanding, USTR 1/ suspended review of a petition filed in August 1977 by the Tanner's Council of America under section 301 of the Trade Act of 1974, and the United States withdrew a GATT complaint about Japan's quantitative import restrictions on leather. 2/

During the first year of the agreement, U.S. exports of leather to Japan fell to 3.9 million square feet from 5.4 million square feet the previous year. In July 1980, President Carter requested that USTR seek measures from the Japanese Government to ensure full implementation of the 1979 bilateral understanding. 3/

During April-December 1980, the United States exported only 24.6 percent of the Japanese FY 1980 4/ quota for U.S. leather specified in the agreement. USTR sources reported that the high price of U.S. leather relative to Japanese leather, caused by high Japanese import duties on leather 5/ and transportation costs, raise the price of U.S. leather above comparable Japanese leather. Japanese wholesalers stated that Japanese tanners put a finer finish on leather than American tanners. They claimed that with transportation costs and the duty, U.S. tanners are not competitive in many lower grades of leather and that they are incapable of producing the high quality, fine grades of more expensive leathers. Slow growth in Japanese demand for leather footwear in recent years has also depressed U.S. leather exports to Japan. Contact with Japan on implementation of the leather understanding was scheduled to continue during 1981.

1/ Office of the United States Trade Representative.
2/ See Operation of the Trade Agreements Program, 31st report, USITC Publication 1121, p. 72.
3/ For more information on the Strauss-Ushiba Agreement signed in January 1978, see Operation of the Trade Agreements Program, 30th report, USITC Publication 1021, 1979, p. 83.
4/ April 1, 1980-March 31, 1981.
5/ The effective rate of duty on 1980 imports from the United States of bovine dyed, colored, stamped, or embossed leather was 21 percent, on bovine leather n.e.s. 164 percent, and on semi-tanned leather 232 percent.

Forest products.--The 1978 Strauss-Ushiba Agreement 1/ directed that action be taken to expand and upgrade U.S. forest products exports to Japan. A United States-Japan Forest Products Committee was formed to resolve trade-inhibiting standards problems that have limited U.S. lumber exports. A central issue has been the large quantity of logs exported to Japan in contrast to the small amount of finished lumber.

The Forest Products Committee met in December 1980. Progress toward improving the product mix of forest products trade to include more lumber was discussed. After the meeting, the U.S. delegation stated that although a "modest shift in product mix" toward increased finished lumber exports relative to log exports had occurred during 1980, most of the change could be explained by a sharp decline in Japanese housing construction that lowered demand for U.S. logs. Referring to Japanese efforts to promote domestic use of the platform frame construction method to facilitate exports of U.S. lumber, U.S. representatives said that although Japanese efforts were praiseworthy, the measures had little, if any, impact on trade flows during 1980. U.S. representatives further stated that "U.S. companies now believe that the major possibility for growth in U.S. lumber exports lies in producing to Japanese standards." Japanese representatives were concerned about proposed U.S. measures to limit log exports; the U.S. lumber industry, particularly in northwestern States, has advocated limiting log exports to Japan to promote increased lumber exports.

In early 1981, Japan called for a 50-percent cutback in log and lumber imports during 1981. As a reason for the action, Japanese authorities cited a sharp decline in Japanese housing construction.

Mexico

In March 1980, the administration of President Lopez Portillo released its Global Development Plan (PGD), which establishes goals and policies for the Mexican economy in 13 sectoral areas. The PGD embodies the economic objectives that Mexico's planners believe can be attained during the remainder of President Lopez Portillo's term, which will expire on December 1, 1982.

Mexico's development policy provides for using the country's oil output to (1) meet domestic requirements, (2) provide revenues for investment in various industries and in infrastructure development, and (3) generate export earnings to improve Mexico's balance-of-payments position. The PGD envisages that oil revenues available for investment and development will be equivalent to 40.4 billion U.S. dollars during 1980-82.

The following table compares the average rates of real growth experienced by major economic sectors in 1977-79 with the PGD's initially proposed averages for 1980-82.

1/ For more information on the Strauss-Ushiba Agreement signed in January 1978, see Operation of the Trade Agreements Program, 30th report, USITC Publication 1021, p. 83.

Table 11.--Mexico's average rates of real growth of gross domestic products by economic sectors in 1977-79, and projected rates for 1980-82

Item	Average rate of real growth	
	1977-79 (actual)	1980-82 (projected)
Total Gross Domestic Product	6.1	8.0
Agriculture	2.6	4.0
Forestry	5.9	5.6
Fishery	6.1	9.4
Mining	2.3	6.8
Petroleum and petrochemicals	4.9	4.0
Manufactures	7.0	10.0
Construction	7.5	11.1
Electricity	8.8	10.7
Commerce	4.7	6.7
Communications and transportation	8.1	9.5
Tourism and recreational services	5.5	7.8
Other services	5.5	6.0

Source: U.S. Embassy in Mexico, Oct. 20, 1980.

Virtually all of the targeted rates of growth are relatively high. Moreover, there are only two sectors--forestry and petroleum/petrochemicals--where the average growth rates projected for 1980-82 are lower than those experienced in 1977-79.

The economic situation in 1980

Major domestic economic developments.--In 1980, the annual real rate of growth of gross domestic product was 7.4 percent; on a per capita basis, it was 4.5 percent. The general index of industrial production was 8.0 percent higher than in 1979. The 1980 index of petroleum production was 17.8 percent higher than in 1979; that for the production of petrochemicals, 12.0 percent higher.

In recent years, the expansion of petroleum output has been accompanied by a boom in Mexico's exports and imports. In U.S. currency, the value of oil exports rose from less than one-half billion dollars in 1975 to more than $9 billion in 1980. In spite of this export growth, Mexico's deficit on trade in goods and services has been growing, and part of the deficit has been financed by foreign borrowing.

As a result of rapid expansion of the national economy, bottlenecks--most acute in transportation--have occurred or have become aggravated, and they are stimulating the rate of inflation. Another factor that is contributing to inflation is the high growth rate of the money supply. The vigorous growth that occurred during the 1970's continued in 1980. In the latter year, the money supply grew at a rate of 38 percent compared with 35 percent in 1979.

The monetary authorities attribute the high growth rates of the money supply to the boom in the economy. In the preamble to the Federal Revenue Bill for 1980, the Minister of Finance and Public Credit stated that Mexico tries to prevent the creation of excess liquidity in order to restrain inflation, but that credit is needed to sustain economic growth. Through its selective credit policy, the Bank of Mexico (the central bank) channels funds to sectors that enjoy higher levels of priority for development, and/or which are the greatest contributors in combating inflation. Among the economic sectors that have high priority are agriculture and agri-industry, capital goods, small- and medium-scale industry, tourism, exports, and "social interest housing." 1/

For about 22 years, the Government of Mexico maintained a rate of exchange of about 12.5 pesos per U.S. dollar. In 1976, the flight of capital from Mexico became so severe that, by August, the Government no longer was able to support the peso-dollar exchange rate. 2/ With suspension of the Government's intervention in foreign exchange markets, the value of the peso declined precipitously, from \$0.0800 (12.5 pesos per dollar) to \$0.0501 (19.95 pesos per dollar) by the end of 1976. The decline continued in 1977 to a value of \$0.0443 (22.736 pesos per dollar) by the end of the year. Since then, the peso has experienced frequent mini devaluations. At the end of 1980, the peso was worth \$0.0430, about 2 percent less than at the end of 1979.

Following the large devaluation of 1976, the Government of Mexico was able to dampen the decline in the dollar value of the peso by securing loans from the International Monetary Fund, the U.S. Government, and other sources; by restoring the confidence of domestic and foreign commercial and financial interests; and by the discovery of large deposits of oil. In 1980 and the immediately preceding years, Mexico was able to avoid floating the peso, and its central bank (Banco de Mexico) apparently will continue to defend the peso as long as its foreign exchange reserves and access to credit permit. The following tabulation shows the number of pesos per dollar and the dollar value of the peso, at yearend as, indicated:

Year	Pesos per dollar	Per peso
1974	12.500	\$0.0800
1975	12.500	.0800
1976	19.950	.05013
1977	22.736	.04398
1978	22.724	.04401
1979	22.803	.04385
1980	23.256	.04300

1/ "Economic Policy for 1980/Ministry of Finance and Public Credit, Ministry of Programming and Budget," Comercio Exterior de Mexico (English ed.), March 1980, p. 73.

2/ The flight of capital was induced by anticipation of devaluation of the peso. When devaluation occurred, the outflow of capital was stimulated again.

Downward pressure on the U.S. dollar value of the peso is attributable in part to Mexico's having rates of inflation that have been and still are higher than those in the United States, which dominates Mexico's foreign trade. In 1980, for example, Mexico's consumer price index was 26 percent higher than it was in 1979. In the United States, during the same period, the Consumer Price Index increased by 14 percent. Mexico's wholesale price index advanced by 24 percent compared with an increase of 14 percent in the equivalent U.S. price index of the United States.

Preliminary results of Mexico's 1980 National Census indicate that, as of June 1980, the population was almost 68 million persons and that it was growing at the rate of 2.9 percent per year. In his State of the Nation Report to the Mexican Congress, September 1, 1980, the President of Mexico indicated that " . . . the equivalent of the entire population of Mexico of just 10 years ago is being supported by 19 million persons." 1/ Estimates of the percentage of Mexico's labor force that is unemployed or underemployed 2/ range from 40 percent to 50 percent. A Mexican Government official has stated that 800,000 new jobs were generated in 1980, and that the number of persons unemployed or underemployed was reduced by 250,000.

At the same time that Mexico is experiencing high unemployment, it is also experiencing shortages of management personnel, electronics engineers, computer programers, bilingual secretaries, machine tool mechanics, draftsmen, agronomists, and skilled personnel in other occupations. 3/

Mexico's value-added tax (VAT).- The VAT went into effect on January 1, 1980. It replaced a large number of taxes, most notably the mercantile tax, which had been levied (generally at a rate of 4 percent) at successive levels of distribution. Thus, by the time goods were sold to consumers, the mercantile tax had had a cumulative effect. Although certain goods were exempt from the mercantile tax, the Federal authorities felt that the mercantile tax bore too heavily on low-income individuals and households and that it was too easy to evade. In its last year, although the mercantile tax had a 4-percent general rate, certain goods and transactions were subject to rates ranging from 5 to 35 percent.

1/ "Fourth State of the Nation Report", Comercio Exterior de Mexico (English ed.), September 1980, p. 321. This statement indicates that in mid-year 1980, the number of persons unemployed, underemployed, or not in the labor force, amounted to 49 million, a number equivalent to Mexico's total population in mid-year 1970.

2/ In the Mexican economic setting, "underemployment" applies to seasonal workers; part-time workers; workers employed in organizations that are overstaffed, with an adverse effect on productivity; and workers earning a precarious living in scavaging operations. For a longer description, see Weil, Thomas E., et al, Area Handbook for Mexico, American University, 1975, pp. 46-47.

3/ Quintanilla, Cecily, "In the Labyrinthine Byways of Service and Compensation, it's Tough to Find the Man You Want--and be Sure he Wants You," Mexican-American Review, October 1980, p. 9.

The value added-tax rate is 6 percent in border areas and 10 percent elswhere. As the name of the tax indicates, the VAT, in effect, is based on the value added to the product by the supplier. In contrast to the practice under the former mercantile tax, when a firm pays a VAT to a supplier, it receives a credit of equal amount to be deducted from the VAT chargeable ac the next higher level of sale.

VAT is applicable to a wide range of goods and services. However, in order to reduce the impact of VAT on lower income groups, many items were exempt at the very outset, including some food products, residential rents, reading materials, and school tuitions. As the year progressed, additional items were exempted from the tax. Effective when the VAT was 1 year old, all food products were made exempt from the VAT.

VAT is applied to certain services not previously taxed. For example, it is levied on 80 percent of the rental on commercial property, and on interest received by nonbanking mortgage institutions. VAT is producing substantially more revenue than had been anticipated. Whereas the former mercantile tax generated 73 billion pesos during 1979, it is estimated that VAT produced 115 billion pesos in 1980, and is predicted to yield 157 billion pesos in 1981.

Some analysts contend that VAT is responsible for between one-fifth and one-third of Mexico's inflation. Officials of the Mexican Government counter that many factors are causing inflation, and that price increases for exempt products have been as large as for those subject to VAT. An American business periodical has reported, however, " . . . most of the prices that should have come down with the removal of VAT have stayed exactly as they were, unless they have gone up." 1/

International economic performance

Mexico's current acount deficit.--Mexico has experienced a current account deficit for many years. The deficit was equivalent to -$2.9 billion in 1974, -$4.1 billion in 1975, -$3.4 billion in 1976, -$1.8 billion in 1977, -$2.7 billion in 1978, -$4.9 billion in 1979, and -$6.6 billion in 1980. In 1974-79 (and probably, 1980) Mexico experienced a deficit in both its balance of merchandise trade and its services balance.

Merchandise trade with major trading partners.--In 1980 both imports and exports were almost 2.6 times as large as they were in 1978. Data published by the International Monetary Fund show that the value of Mexico's imports increased from $7.6 billion in 1978 to $12 billion in 1979, and to $19.5 billion in 1980 (see table 12). Exports increased from $6.0 billion in 1978 to $9.0 billion in 1979, and to $15.3 billion in 1980. Mexico's balance of trade was negative in each year, and worsened from $-1.6 billion in 1978 to $-3.1 billion in 1979, and to $-4.2 billion in 1980.

1/ "Inflation Could Dash Mexican Oil Hopes," Journal of Commerce, Jan. 16, 1981.

Table 12.--Mexican imports, exports, and trade balances, with major trading partners and with the world, 1978-80

(In millions of U.S. dollars)

Country/region	1978	1979	1980
	Imports		
Developed countries:			
EC	1,399	1,951	2,680
Canada	126	198	371
Japan	609	790	1,039
United States	4,564	7,559	12,814
All developed countries	7,038	11,112	17,864
LDC's:			
OPEC	43	74	58
All LDC's	457	826	1,027
NME's			
China	30	43	69
U.S.S.R	4	1	13
All NME's	62	97	275
Total for identified countries/regions	7,557	12,035	19,166
Total	7,561	12,087	19,529
	Exports		
Developed countries:			
EC	342	512	1,003
Canada	62	75	163
Japan	200	248	563
United States	4,057	6,252	9,688
All developed countries	4,867	7,608	12,547
LDC's:			
OPEC	179	157	122
All LDC's	753	994	1,973
NME's			
China	124	114	93
U.S.S.R	5	5	4
All NME's	179	194	201
Total for identified countries/regions	5,799	8,796	14,722
Total	5,953	8,983	15,340

Table 12.--Mexican imports, exports, and trade balances, with major trading partners and with the world, 1978-80--Continued

(In millions of U.S. dollars)

Country/region	1978	1979	1980
	Trade balance		
Developed countries:			
EC	-1,057	-1,439	-1,677
Canada	-64	-123	-208
Japan	-409	-542	-476
United States	-507	-1,307	-3,126
All developed countries	-2,171	-3,504	-5,317
LDC's:			
OPEC	136	83	64
All LDC's	296	168	946
NME's:			
China	94	71	24
U.S.S.R	1	4	-9
All NME's	117	97	-74
Total for identified countries/regions	-1,758	-3,239	-4,444
Total	-1,608	-3,104	-4,189

Source.--Compiled from data reported by the International Monetary Fund in Direction of Trade Statistics Yearbook (1981 ed.).

Note.--A small part of Mexico's international trade was not reported by country or region. Such imports amounted to $4 million in 1978, $52 million in 1979, and $363 million in 1980. Such exports had a value of $154 million in 1978, $187 million in 1979, and $618 million in 1980.

In recent years, the rapid growth of Mexico's exports has been accounted for by the spectacular rise in its exports of crude petroleum. In 1974-80, the share of petroleum in total exports was as follows:

	Percent of total
1974	1.3
1975	6.0
1976	15.7
1977	21.8
1978	30.0
1979	42.2
1980	60.9

The Government of Mexico has a policy of diversifying the product-mix of its exports, and of increasing the shares of its imports and exports accounted for by trade with countries other than the United States. 1/ However, growing

1/ The trade policy section of Mexico's Global Development Plan calls for promotion of increased exports of manufactures. Mexico's desire to reduce its relative trade dependence on the United States is exemplified by the Mexican-Canadian Trade Agreement, signed early in 1981. See "Canada, Mexico internal demand for foodstuffs and manufactured products, coupled with high levels of inflation that weaken Mexico's international competitiveness in nonpetroleum products, make it difficult for Mexico to diversify further the mix of goods in its exports.

Moreover, recent experience suggests that, in the short run, Mexico will be unable to reduce greatly the share of its international trade accounted for by trade with the United States. Historically, roughly two-thirds of Mexico's total trade has been with the United States, and this relationship has changed little in recent years. 1/ The United States supplied 60.4 percent of Mexico's imports (reported by source) 2/ in 1978, 62.8 percent in 1979, and 66.9 percent in 1980. The United States received 70.0 percent of Mexico's exports in 1978, 71.1 percent in 1979, and 65.8 percent in 1980.

On the basis of U.S. tariff classifications, the five leading items that the United States imported from Mexico in 1980 were as follows (in millions of dollars):

TSUS No.	Description 1/	1979	1980
475.10	Crude petroleum testing under 25 degrees A.P.I.------------	3,010.6	4,572.0
475.05	Crude petroleum testing 25 degrees A.P.I. or more------------	28.1	1,422.6
475.15	Natural gas----------------------------	551.6	
114.45	Shellfish other than clams, crabs, or oysters--------------------------	317.0	338.4
160.10	Coffee, crude, roasted or ground---------	410.5	302.4

1/ For complete descriptions and applicable headnotes, see the TSUSA.

In 1980, crude petroleum and natural gas, considered as a group, constituted 52.8 percent of total U.S. imports from Mexico. Other important U.S. imports were gold and silver in the form of bullion, dore, or precipitate; printed circuit boards with certain assembled components; metal coins; cabinets, antennas, deflection yokes, and certain other electronic components; certain parts of motor vehicles; electrical switches and relays; electronic tubes (except cathode ray tubes), transistors, and related electronic crystal components; and certain apparatus and parts designed for cable television applications.

Imports from Mexico under special provisions for duty-free treatment have accounted for an important share of total U.S. imports from Mexico in recent years. In 1980, U.S. imports from Mexico under the tariff items 806.30 and 807.00--which provide for duty-free entry of previously exported U.S. articles and components under certain conditions 3/--had a combined value of $2.34

1/ The importance to the United States of trade with Mexico has grown relatively as well as absolutely: Mexico has become the United States' third-leading trading partner, following Canada and Japan.

2/ Small shares of Mexico's trade statistics are not reported by origin or destination.

3/ For an in-depth statistical treatment of imports under these items, and for information on the related history, customs decisions, and problems of customs administration, see the U.S. International Trade Commission's special report, Imports Under Items 806.30 and 807.00 of the Tariff Schedules of the billion. Of this amount, the dutiable value (value added in Mexico) was $1.16 billion and the nondutiable value (U.S. content) was $1.19 billion. Mexico was the second largest beneficiary of these provisions in 1980.

The existence of these provisions has stimulated the establishment, in Mexico, of in-bond plants ("maquiladoras"), chiefly by companies headquartered in the United States. These plants are not considered to be within Mexico's customs territory, and all of their output enters consumption outside of Mexico. 1/ Inbound and outbound shipments, therefore, are not reported as Mexican imports and exports. 2/

Also in 1980, U.S. imports from Mexico entering duty-free under the Generalized System of Preferences (GSP) had a value of $509 million. Additional imports of Mexican origin, valued at $1,570 million, would have received duty-free treatment except for the "competitive need" rules of the GSP system, or because required documentation was not filed. 3/ Mexico was the fourth largest beneficiary of the GSP system in 1980.

In the same year, U.S. exports to Mexico had a value of $14.9 billion, a new record that was 54 percent higher than the comparable value of $9.7 billion in 1979. Ranked on a five-digit Schedule B 4/ basis, the five leading items that the United States exported to Mexico in 1980 were as follows (in millions of dollars):

TSUS No.	Description 1/	1979	1980
692.29	Certain subassemblies and parts of motor vehicles	671.8	962.9
130.34	Corn or maize	116.1	680.4
664.05 2/	Mining and construction machinery and equipment	350.1	418.5
694.40	Aircraft	198.3	364.5
130.40	Grain sorghum	159.8	331.2

1/ For complete description, see Schedule B.
2/ For continuity, data are included for exports under classification No. 66402, which became effective in 1980.

Other important U.S. exports to Mexico included parts of certain internal combustion engines; soybeans; electrical switches; gold and silver in the form of bullion, dore, or precipitate; electronic tubes, except cathode ray tubes, and certain semi-conductors; television apparatus and specified parts; pinto beans; agricultural machinery and equipment; certain iron or steel materials and structures; certain sugars, sirups, and molasses; (non-truck) tractor parts; and wheat.

1/ Deliveries and shipments are not subject to Mexican import or export duties.
2/ The value added in Mexico is reported as a service item in Mexico's balance of payments.
3/ For more details about the GSP, see ch. V of this report.
4/ U.S. Department of Commerce, Bureau of Census, "Schedule B: Statistical Classification of Domestic and Foreign Commodities Exported from the United States.

Of particular interest in the composition and trend of U.S. exports to Mexico is the considerable increase in importance of agricultural products. For many years, Mexico was a net exporter of foodstuffs, but this is no longer so. A combination of unfavorable weather conditions, a rapidly growing population, and growing urbanization has increased the Mexican demand for agricultural imports. U.S. exports of corn to Mexico increased from $160 million in 1979, to $680 million in 1980; grain sorghum (Mexico's principal feed-grain), from $160 million to $331 million; soybeans, from $118 million to $259 million; pinto beans from $8 million to $175 million; certain sugars and sirups, from $0.1 million to $137 million. 1/ Although U.S. exports of wheat to Mexico declined from $197 million in 1979 to $123 million in 1980, the data for the first quarter of 1981 indicate that exports for all of 1981 may equal or surpass those for 1979. The U.S. Department of Agriculture reports that in fiscal year 1980, U.S. exports of agricultural products to Mexico had a value of $2.0 billion, more than double the value in fiscal year 1979.

The members of the European Community, as a group, constitute Mexico's second largest source of imports. The EC supplied 18.5 percent of Mexico's imports in 1978, 16.2 percent in 1979, and 14.0 percent in 1980. The EC received somewhat less than 6 percent of Mexico's exports in each of the years 1978 and 1979, and 6.8 percent in 1980.

In 1978-80, Mexico's trade with Canada, the OPEC countries, and with countries having nonmarket economies (NME's) was very small. Mexico's trade with Japan grew in value, but the growth did not keep pace with the growth of Mexico's total trade. Mexico's imports from Japan accounted for 8.1 percent of total imports in 1978, 6.6 percent in 1979, and 7.1 percent in 1980. Japan received 3.4 percent of Mexico's total exports in 1978, 2.8 percent in 1979, and 3.8 percent in 1980.

Major issues and policy developments affecting Mexico's trade with the world.

Mexican decision on GATT.--Mexico was an active participant in the Tokyo round of the MTN, and it negotiated a protocol of accession to the GATT. The Mexican negotiators agreed to the following commitments for Mexico: (1) to phase out its quantitative restrictions and import licensing measures; (2) to replace them with higher rates of duty; (3) to phase out the use of official prices as a basis for levying import duties; and (4) to apply trade restrictions on a non discriminatory basis. These commitments were qualified by references to Mexico's development plans and the need to protect Mexico's agricultural sector. By the end of 1979 Mexico had completed negotiations with the Contracting Parties. Tariff concessions, negotiated by the United States and Mexico in a bilateral trade agreement, were annexed to the protocol of accession.

1/ The upsurge in U.S. exports of pinto beans is attributable to a crop failure in Mexico; the upsurge in sweeteners to Mexico is attributable to poor growing conditions in Mexico and the deteriorating physical condition of Mexico's sugar mills. Higher world prices also affected the increased value of exports from the United States (and other countries). A considerable part of the U.S. exports consisted of sweeteners processed from imported raw sugars and exported with the benefit of the drawback provisions of U.S. trade law

In February 1980, President Lopez Portillo formed a foreign trade cabinet to make and to coordinate policy on international trade matters, and to give him a recommendation on the issue of GATT membership. From November 1979 to March 1980, various organizations held meetings and seminars to express their views, in response to a request by the Government seeking their opinions. Among the opponents to GATT membership were the National Chamber of Transformation Industry (CANACINTRA) and the National College of Economists (CNE). They felt that membership would impede Mexico's efforts for economic independence and damage the competitive position of small- and medium-sized businesses.

The Confederation of Industrial Chambers (CONCAMIN) was split on the issue. The National Council of Foreign Trade (CONACEX), the Employers' Confederation (COPARMEX), and the Bank of Mexico were among the advocates of GATT membership. Their arguments in favor of membership were that it would lead to an expansion of Mexico's international trade, an enhanced standard of living for the Mexican nation, and greater consumer options in the face of high domestic rates of inflation.

After having considered the arguments of proponents and opponents of GATT membership, President Lopez Portillo announced on March 18, 1980, the Government's decision at a ceremony commemorating the 42nd anniversary of the Government's expropriation of properties of certain U.S.- and British-owned oil companies. Because of the importance of three policy pronouncements that the President made, the date is an important one.

The decision on GATT membership was negative. The President stated that "After receiving a whole range of contradictory opinions, I have determined that this is not the appropriate moment for Mexico to join this trade group." 1/ The President decided that a number of issues related to GATT membership had not been resolved. Among other things, membership would not protect Mexico's need for flexibility in the implementation of its economic development plans. He was particularly concerned with what he regarded as the incompatibility of accession to GATT (in the light of unresolved issues) with Mexico's control of access to its natural resources. Nevertheless, the President did not close the door on future membership. After giving his reasons, he said, "Our decision is to postpone our entry into GATT." 2/

The decision on GATT was the third of the three decisions that President Lopez Portillo announced at the ceremony. The first concerned the level of oil production; the second, a program for national self-sufficiency in food.

Mexican energy policy.--At the start of his speech, the President urged PEMEX's management and workers to increase oil production by 10 percent (from a range of 2.25-2.5 million barrels per day, the previous limitation under the National Industrial Development Plan, to a range of 2.5-2.7 million barrels), to enable Mexico to increase its exports to 1 million barrels per day. Increased exports, he observed, would bring " . . . sufficient foreign currency earnings to undertake those other priority goals which . . . we have . . . not achieved."

1/ "Economic and Social Conditions in Mexico: General Matters," Comercio Exterior de Mexico (English ed.), March 1980.

2/ Ibid.

Mexican program for national self-sufficiency on food.--In connection with food, President Lopez Portillo announced a national nutrition program, the Mexican Alimentary System (SAM). To implement the program, he said that the Government would open up new lands to cultivation, share risks of producers, increase productivity, encourage technological gains, establish systems for food conservation, and "set up a distribution network from harvesting . . . to the consumer." 1/ In order to improve levels of nutrition, the Mexican Government would promote a campaign to educate the general public about better dietary practices.

SAM embodies 12 program areas, including credit, crop insurance, marketing, processing, land tenancy, and colonization. The Secretariat of Agriculture guarantees a minimum income to farmers in rainfed areas producing basic foodstuffs. Increased and diversified production is encouraged through the Government's price-support policy. In implementing SAM, it probably will be necessary for Mexico to make tradeoffs. Expanding areas for crops impinges on pasture for livestock. Increasing the number of livestock per acre would require more imported animal feed. Expanding the area devoted to basic foodstuffs, such as corn, wheat, and beans, could displace Mexico's production of fruits and vegetables other than beans, with an adverse effect on Mexico's ability to export these foodstuffs.

Policy decisions regarding oil.--In mid year, the Japanese Government announced that it had agreed with Mexico on an exchange of crude oil for financial and technical cooperation. Japan will extend a 30 billion-yen loan for the expansion of Mexico's Las Truchas steel works, and will provide another 30 billion yen for a Japanese/Mexican joint venture in a casting and forging plant and in a large-diameter steel pipe mill. Mexico agreed to increase its exports of crude oil to Japan to 300,000 barrels a day, beginning in 1982. In August 1980, however, Pemex announced that Mexican exports of crude oil to Japan probably would not reach 100,000 barrels per day until 1981 or 1982, and that they would not reach 300,000 barrels a day until at least 1985.

In August 1980, Mexico and Venezuela signed an agreement to supply oil to Central American and Caribbean countries at preferential prices. (Venezuela has been doing so since 1975.)

Bilateral issues and policy developments affecting trade with the United States

Meetings and consultations.--In 1980, the United States and Mexico had a busy schedule of meetings and consultations on matters of mutual interest. A series of meetings was held by the Trade Working Group (TWG), one of several working groups within the framework of the Consultative Mechanism established by Presidents Carter and Lopez Portillo in February 1977. Following the election of President Reagan, the work of the TWG was suspended to await a Reagan-Lopez Portillo meeting on trade and other issues.

At meetings held in 1980, the U.S. members of the TWG were concerned about (1) development incentives (including tax rebates or credits) that have a direct or indirect impact on Mexican exports, (2) Mexico's prohibition of

1/ Ibid.

imports of pork and pork products, (3) its suspension of issuing licenses for the importation of hides and skins, (4) Mexico's domestic-content requirements for motor vehicles assembled in Mexico, and (5) the inability of the United States to deal with U.S.-Mexican trade relations within a multilateral framework, because Mexico had not become a member of GATT. 1/

Consideration of Mexico's export incentives led to discussion of U.S. countervailing duty (CVD) legislation and its implementation. Mexico would like to have an injury test incorporated in any CVD investigation involving Mexico. The GATT antidumping-countervailing duty code provides for such a test, but Mexico has not signed the code. Consequently, Mexico is not a "country under the Agreement" within the meaning of section 701(b) of the Tariff Act of 1930, as amended by the Trade Agreements Act of 1979. CVD investigations of articles from non-signatory countries are covered by the provisions of section 303, Tariff Act of 1930, as amended by section 331 of the Trade Act of 1974. Among other things, section 331 provides for an investigation of injury, by the U.S. International Trade Commission, if the subject article whose production or export has been encouraged by a bounty or grant is free of duty. This section does not provide for an injury determination on a dutiable article.

The Mexican members were concerned about the U.S. tariff status of Mexican items in the schedule of concessions of the U.S.-Mexican Trade Agreement that had lapsed because Mexico had not joined GATT. They were also concerned about prospective losses of GSP treatment for certain commodities, about pending U.S. legislation to impose an import duty on shrimp, and about present and prospective policies of the U.S. Export-Import Bank toward Mexico.

In January 1980, the United States and Mexico reached a supply/purchase agreement under which the United States would export 4.76 tons of basic agricultural products to Mexico. The U.S. Government does not make direct sales, but it facilitates them by helping to make U.S. suppliers aware of opportunities to obtain orders. The successful results of the inital pact led to an extension of the agreement in September 1980 to provide for an additional 2.44 million tons of U.S. agricultural exports.

Because of the need to expedite the movement of U.S.-produced foodstuffs into Mexico, the Mexican Government requested the formation of a binational group to solve or alleviate problems at border gateways. Since mid-year 1980, there has been a series of meetings known as the U.S.-Mexico Government and Industry Agricultural Transportation Meetings. Progress toward goals discussed at these meetings has expedited the movement of not only agricultural, but also industrial products. In 1980, all major meetings were co-chaired by the U.S. Assistant Secretary of Agriculture for Marketing and Transportation, and by Mexico's Subsecretary of Commerce for Regulation and Supply. Other persons, attending large and/or small meetings, represented the Mexican Government's food importing agency, Compania Nacional de Subsistencias Populares (CONASUPO), which purchases on its own and also authorizes importing by private concerns; the customs services of the United States and Mexico; custom house brokerage-freight forwarding companies; U.S. and Mexican

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1/ Two issues have been disposed of. In the latter part of 1980, Mexico lifted its ban on pork imports, and it resumed the issuance of licenses for the importation of hides and skins (but not as freely as before suspension).

railways; U.S. companies engaged in grain trade; the U.S.-Mexico Chamber of Commerce, the Association of American Railroads, and other trade associations; the U.S. and Mexican Embassies; the Office of Transportation, U.S. Department of Agriculture; and other departments and agencies of both Governments.

The efforts of the parties involved have resulted in improvements in documentation, inspection, and fumigation procedures, and in communications. They also have established the basis for further bilateral efforts to deal with the logistics of trade between the two countries, and have strengthened cooperation in this area.

Trade agreement concessions negotiated with Mexico.--During the Tokyo round, the United States and Mexico entered into a trade agreement on two occasions. A 1977 agreement, in which the United States had granted concessions on tropical products, never became effective because the Mexican Senate did not consent to ratification. On October 31, 1979, the two Governments entered into another trade agreement. Concessions by the United States were to include a wide range of fruits and vegetables; certain textiles and wearing apparel; unwrought lead, lead powder, and flakes; and other products. Concessions by Mexico were to consist of agricultural products and various manufactured industrial and consumer goods. 1/ The agreement provided that the United States could suspend or withdraw its tariff concessions in whole or in part if Mexico did not join the GATT.

On December 11, 1979, President Carter issued Proclamation 4707 to carry out the Geneva (1979) Protocol to the GATT and for other purposes. The October 31, 1979, trade agreement with Mexico was annexed to this proclamation as part 3 of Annex I. On January 1, 1980, the United States implemented the concessions on certain lead items as follows:

TSUS item No.	Articles	Base rate	Concession rate
	Pigments containing lead:		
473.52	Litharge	6.0% ad val.	2.4% ad val.
473.56	Red lead	8.6% ad val.	3.4% ad val.
	Unwrought lead:		
624.02	Bullion	5.2% ad val.	3.5% ad val.
624.03	Other	5.1% ad val.	3.5% ad val.

When President Lopez Portillo, on March 18, 1980, announced that he had decided to postpone Mexico's joining the GATT, the aforementioned trade agreement was no longer valid. Consequently, the United States and Mexico reopened negotiations. On September 15, 1980, before the conclusion of the negotiations, President Carter issued Proclamation 4792, which among other things, immediately increased the rate of duty on litharge from 2.4 percent to 3.5 percent ad valorem. He did so because at that time, Mexico had not provided adequate substitute compensatory concessions.

1/ For a more detailed enumeration of each country's concessions see U.S. International Trade Commission, Operation of the Trade Agreements Program, 31st report, USITC Publication 1121, p. 152.

In order to grant a concession in exchange for the United States concessions on lead, Mexico agreed to bind its duty-rate of 10 percent ad valorem on certain aluminum strips (Mexican tariff item No. 76.03.A.002), and to exempt them from import licensing requirements.

On January 16, 1981, by Proclamation No. 4817, President Carter announced that, in view of the temporary modification of the rate of duty on unwrought lead, by section 114 of Public Law 96-609 of December 28, 1980, 1/ and in view of the extent of concessions received from Mexico, he was modifying the suspension of the concessions on litharge and red lead pigments and proclaiming temporary column 1 rates of duty (on and after Jan. 19, 1981), as follows:

TSUS item No.	Articles	Rates of duty
948.10	Litharge (provided for in item 473.52)	3.0% ad val. or such other rate as may be proclaimed by the President
948.12	Red lead (provided for in item 473.56)	3.4% ad val. or such other rate as may be proclaimed by the President

Mexican embargo on railway shipments.--Shortages of railway freight-carrying capacity and congestion at border gateway points and freight terminals have become a serious problem in Mexico. They have created bottlenecks in trade and adversely affected production in Mexico. From time to time, because of delays in the return of rolling stock from Mexico and because of railway congestion, U.S. railroad companies have used a so-called embargo-permit system on shipments to Mexico to control train movements and reduce the duration of tieups. The most recent implementation of the embargo-permit system went into effect on May 6, 1980, and was still in effect at the end of the year.

In December 1980, a particularly serious tieup of railway equipment caused National Railways of Mexico (NdeM) to place an embargo at border gateway points on railroad shipments originating in the United States or Canada, unless the shipments were documented before December 23, 1980.

The tieup occurred because imports from the United States and Canada had surged beyond expectations, and because northbound trains were unable to pass southbound trains on predominantly single-track routes. About 36,000 freight cars were idle in Mexico at the time the embargo was imposed. At Laredo, Texas-Nuevo Laredo, Tamaulipas (the busiest gateway), largely because of Mexico's imports of grain, railway traffic was running 42 percent higher than in late 1978, when a previous crisis had occurred. Compared with late 1978,

1/ Among other things, P.L. 96-609 inserted item 911.50 into the TSUS, and temporarily modified the col. 1 rate on unwrought lead other than lead bullion (provided for in item 624.03) with this language: "3% ad val. on the value of the lead content, but not less than 1.0625¢ per pound on the lead content."

railway traffic was up 81 percent at Brownsville, Texas-Matamoros, Tamaulipas, and 500 percent at El Paso-Ciudad Juarez and Eagle Pass, Texas-Piedras Negras, Coahuila. 1/

Among other things, the embargo caused a backup of millions of bushels of U.S. grain destined for Mexico. Railway freight shipped in trailers on flat cars, or in containers on flat cars, were permitted to enter Mexico if the containers were reloaded onto trucks or the trailers were attached to truck tractors. However, sufficient numbers of trucks, tractors, and drivers to relieve the backup were not available at or near the points where U.S. railroads connect with the NdeM. 2/

Contributing to the railway problem was the use of southern U.S. maritime ports for ship-to-train transfers of some of the Mexican imports from third countries. 3/ The U.S. ports have deeper channels and more space for docking than do the Mexican ports. Consequently, the former can accommodate more and larger ships. Mexico, however, is making multi-billion dollar expenditures for port development, to accommodate large oil tankers and other ships. The Government also is developing a "landbridge" across the Isthmus of Tehauntepec. (By using the landbridge instead of the Panama Canal, it will be possible to save as much as 5 days on maritime shipments between the Texas Gulf Coast and Los Angeles, and 3 1/2 days between New York and Tokyo. Tens of thousands of containers per year will move by a parallel railway and highway between Salina Cruz on the Pacific Ocean and Coatzacoalcos on the Gulf of Mexico.) 4/

Until Mexico completes its program to upgrade railway facilities, embargoes imposed by NdeM and/or U.S. railways can be expected from time to time. 5/ Mexico's railway upgrading program includes some double tracking, some electrification, acquisition of more rolling stock, the expansion of existing freight terminals, and the construction of new freight terminals. More than 90 percent of Mexico's railway mileage is of single track construction. However, NdeM intends to double track the railway between Mexico City and Guadalajara, and to electrify it. Later, NdeM plans to double track the line between Monterrey and Mexico City. To increase carrying capacity, centralized traffic control already is being installed.

Winter vegetables: antidumping determination.--Effective on March 28, 1980, the U.S. Department of Commerce made a final determination that certain fresh winter vegetables from Mexico were not being sold at less than fair value within the meaning of section 735 of the Tariff Act of 1930, as amended. This determination was the result of an antidumping investigation

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1/ "Rail Renaissance in Mexico," Railway Age, Apr. 13, 1981.
2/ Mexican truckers by the hundreds have been entering border gateways, and they have become selective as to types of cargo and destinations of shipments they will accept. (Journal of Commerce, Mar. 10, 1981).
3/ Journal of Commerce, Jan. 12, 1981.
4/ "Mexican Ports Expanding," Engineering News Record, Apr. 9, 1981.
5/ After imposing the late-1980 embargo, NdeM began to phase it out by exempting high-priority products. Early in 1981, NdeM notified U.S. and Canadian railways that it would lift the embargo on Mar. 1, 1981.

based on a petition received by the U.S. Treasury Department on October 19, 1979. 1/ The petitioners were the Southwest Florida Winter Vegetable Growers Association, the Palm Beach-Broward Farmers Committee for Legislative Action, Inc., and the South Florida Tomato and Vegetable Growers, Inc.

For the purposes of the investigation, "certain fresh winter vegetables" meant fresh cucumbers, eggplant, peppers, squash, and tomatoes (except cherry tomatoes), provided for in items 135.90 through 135.92, 136.20 through 136.22, 137.10, 137.50, and 137.60 through 137.63, of the Tariff Schedules of the United States, and meeting certain minimum standards of the U.S. Department of Agriculture. The investigation covered the enumerated vegetables imported into the United States between November 1, 1977, and April 30, 1978.

Early in the initial investigation, a question was raised whether perishable agricultural commodities were within the scope of the Antidumping Act. Treasury (and later Commerce) cited three precedents: Concord Grapes from Canada (34 FR 7460 (1969)), Chicken Eggs in the Shell from Mexico (36FR5387 (1971)), and Chicken Eggs in the Shell From Canada (40 F.R. 16687 (1975)), and also relied on the legislative history of the Antidumping Act of 1921.

Treasury (and later Commerce) noted that all export sales to the United States were to unrelated U.S. customers by consignees of the Mexican growers. Located in Nogales, Ariz., the consignees sold the goods on commission. Because there were virtually no home-market sales of these vegetables in the grades and qualities exported to the United States, Treasury (and later Commerce) compared the adjusted purchase prices to customers in the United States with those to customers in Canada.

After finding no price discrimination between U.S. and Canadian markets, Treasury, on November 5, 1979, published a tentative determination of sales at not less than fair value. On January 1, 1980, the antidumping provisions of the Trade Agreements Act of 1979 replaced the Antidumping Act of 1921. Effective on the same date, under the President's Reorganization Plan No. 3 of 1979, responsibility for administering antidumping and countervailing duty matters was transferred from Treasury to Commerce. 2/ Using the same methodology and reasoning as Treasury, Commerce's final determination was the same as Treasury's tentative one.

Textile agreement.--On February 26, 1979, the Governments of the United States and Mexico exchanged notes to effect a new bilateral textile agreement for the term May 1, 1978- to December 31, 1981. The term is divided into four periods, of which the first is for 8 months and the other periods are for a calendar year each. The agreement covers yarn; fabric; apparel; and household and other textile products of cotton, wool, and/or man made fiber. Under the provisions of the agreement, Mexico agrees to restrict its exports, in certain categories, to specific limits. For other categories, the agreement provides for consultations to avoid market disruption.

1/ Until 1980, under the Antidumping Act of 1921, Treasury had the authority and responsibility to investigate allegations that specified U.S. imports were being sold at less than fair value.

2/ For a description of the reorganization of the Trade Policy Establishment, see Operation of the Trade Agreements Program, 31st report, USITC Publication 1121, pp. 113-115.

Like the bilateral agreements negotiated by the United States with other countries, the agreement with Mexico is in accord with the provisions of the Arrangement Regarding International Trade in Textiles, known as the Multifiber Arrangement (MFA). 1/ Among other things, article 4 of the MFA indicates that bilateral agreements should provide for areas of growth in trade, transfers from one time period to another (carry forward and carryover), and transfers from one product grouping to another.

The U.S.-Mexican textile agreement provides for a 7-percent annual growth rate for those categories that are subject to specific quantitative limits. In 1980, in categories subject to consultation levels, the two Governments agreed to increase the levels of imports needed to trigger consultations for the following categories or subcategories: "other" cotton apparel, cotton underwear, man made fiber dressing gowns, spun acrylic yarn, wool dresses, cotton blouses (not knit), and cotton sweaters.

Gas agreement.--On September 21, 1979, the Governments of the United States and Mexico jointly announced their agreement on a framework for the aggregate daily sale of 300 million cubic feet of natural gas by Pemex to U.S. purchasers. Among other things, the framework provided a base price of $3.625 (U.S.) per million Btu, subject to quarterly escalation according to a formula to be contained in purchase contracts. 2/ The framework further provided that, prior to January 1, 1980, if the price for natural gas from comparable sources were to exceed $3.625, the price to Pemex could be reconsidered prior to that date.

Pursuant to the agreement, Pemex and Border Gas, Inc., a consortium of six U.S. pipeline companies, signed a contract on October 19, 1979, to implement the terms of the framework agreement. On December 29, 1979, in Opinion and Order No. 12, the Economic Regulatory Administration (ERA), U.S. Department of Energy, following an application from Border Gas, authorized Border to import up to 300 million cubic feet per day of natural gas from Mexico under the terms of the Pemex-Border contract. The ERA order was preceded by an order by the Federal Energy Regulatory Commission (FERC), authorizing Border's owner-utilities to deliver the Pemex-supplied gas in the United States at prices reflecting costs and expenses.

In a letter dated February 27, 1980, Pemex notified Border Gas that it wanted to adjust the price formula, to make the price equal to the higher of the contract price or the U.S.-Canadian border price for natural gas (established by the Canadian National Energy Board and authorized by the U.S.

1/ The U.S. International Trade Commission has republished the MFA in App. A, Vol. 2, The Multifiber Arrangement, 1973 to 1980, Report on Investigation No. 332-108 Under Section 332 of the Tariff Act of 1930 (USITC Publication 1131, March 1981).

2/ The contracts' escalation formula is based on increases in the prices of a "basket" of crude oils. When the U.S. Government, in 1977, had withheld permission for Border Gas to sign a contract with Pemex, Pemex had proposed that the price of Mexican natural gas, delivered to the U.S.-Mexican border, be tied to the price of No. 2 heating oil. If this formula had been approved, the price of the gas would have risen to more than $7.50 per million British thermal units early in 1981.

Government). Pemex indicated that negotiations preceding the September 21, 1979, joint announcement of the U.S. and Mexican Governments envisaged that Pemex consistently would receive a price at least equal to the price of Canadian natural gas at the U.S.-Canadian border.

In response to the amendment of the Pemex-Border Gas contract (or its imminence), Border Gas petitioned ERA for approval of a price increase, lest future deliveries of gas by Pemex be jeopardized. It also petitioned FERC for action within its jurisdiction.

ERA was not satisfied with the submission in support of Border's petition, but took note of ongoing discussions between the United States and Mexico, and between the United States and Canada. The ERA also took note of significant recent changes in the prices of crude oil and competing fuels in the United States, of our energy relations with Canada and Mexico, and the need "to establish a stable and equitable relationship between Canadian and Mexican import prices." 1/ Accordingly, ERA issued Opinion and Order No. 16, approving a price increase of Mexican gas, to $4.47 per MMBtu, for the period March 27-May 15, 1980.

On May 15, 1980, ERA issued Opinion and Order No. 16A, continuing authorization of the $4.47 price. On June 9, 1980, ERA amended this order "to authorize Border to pay the higher of U.S. $4.47 per MMBtu or the price determined pursuant to the escalation clause . . . ." 2/ The ERA found that the $4.47 price was competitive with the prices of substitutable fuels and with the border price of Canadian natural gas. This price remained in effect throughout 1980. 3/

One of the members of the Border Gas consortium, El Paso Natural Gas Co., exports small quantities of natural gas to Compania Minera of Cananea, Sonora, Mexico, and has been doing so since 1940. In response to El Paso's petition for renewed authority to export gas to Minera, ERA issued its Opinion and Order No. 18 on August 21, 1980. In so doing, ERA found that El Paso was exporting natural gas at $2.35 per million cubic feet. while importing gas at $4.47 per million British thermal unit. Assuming that one thousand cubic feet yields one million British thermal unit, ERA indicated that El Paso's U.S. customers could be subsidizing exports in amounts up to $30,316 per day, to offset the revenue loss to El Paso. To prevent continuance of such subsidization, ERA ordered El Paso to equalize its import and export prices at the border, and instructed the company to file the necessary tariff papers with the FERC.

U.S.-Mexico fishing dispute.--In 1980, a so-called tuna war between the two countries began when Mexico confiscated tuna catches and nets, and levied fines on American skippers, on the grounds that their crews had caught tuna within Mexico's 200-mile limit. Under terms of the U.S. Fishery Conservation and Management Act of 1976, the United States retaliated by placing an embargo

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1/ Opinion and Order No. 16.

2/ Opinion and Order No. 16A.

3/ On Jan. 16, 1981, Border notified ERA that, during Jan. 1-Mar. 31, 1981, Border would pay Pemex $4.826 per MMBtu, the price derived from the escalation formula.

on Mexican tuna. The American Tunaboat Association advocated that the ban on Mexican tuna be broadened to include Mexican shrimp, but by year end, this recommendation had not been implemented.

Like Mexico, the United States has a 200-mile limit of jurisdiction over fishing rights by foreign vessels, but unlike Mexico, the United States makes an exception for fishing for migratory fish, such as tuna, where a 12-mile limit is in effect.

On December 29, 1980, the Government of Mexico notified the Government of the United States of its intention to terminate the two fishing agreements between them. 1/ In making this information public on January 2, 1981, the U.S. Government noted the willingness of the Mexican Government to continue consultations on fisheries matters of concern to both Governments.

Nonmarket Economy Countries

Section 410 of the Trade Act of 1974 requires the U.S. International Trade Commission to monitor U.S. trade with the Communist countries (referred to as nonmarket economy countries (NME's)) 2/ and to publish a detailed summary of the data on this trade not less frequently than once each calendar quarter. During 1980 the Commission submitted quarterly reports numbered 21 through 23 to the Congress and to the Trade Policy Committee. 3/ These reports, besides detailing leading imports and exports between the United States and the Communist countries, analyze the importation of products of Communist countries that have a growing significance in U.S. markets.

Developments affecting U.S.-NME trade relations

The NME's are a small but politically significant bloc of U.S. trade partners. Political events led to noteworthy changes in trade relations between the United States and NME's in 1980. On one hand, following the establishment of U.S.-Chinese diplomatic ties in 1979, the United States took a number of steps to strengthen its economic relations with China during 1980. On the other hand, a series of actions taken by the United States in response to the Soviet invasion of Afghanistan seriously affected U.S. commercial relations with the U.S.S.R.

1/ One agreement, entitled "Maritime Boundaries," was signed on November 24, 1976, and entered into force on the same date. The other agreement, entitled "Fisheries Agreement Between the United States of America and the Government of Mexico Concerning Fisheries off the Coasts of the United States," was signed on August 26, 1977, and entered into force December 29, 1977.

2/ In 1980 the nonmarket economy countries included under the Commission's monitoring system were: China, U.S.S.R., Yugoslavia, Poland, Romania, East Germany, Czechoslovakia, Bulgaria, Hungary, Albania, Mongolia, Vietnam, Cuba, and North Korea.

3/ The Commission submitted the 24th report covering trade in the third quarter of 1980 on Jan. 15, 1981.

A comprehensive trade agreement between the United States and China, signed in 1979, was approved by the Congress and became effective on February 1, 1980. The agreement extended most-favored-nation (MFN) tariff treatment to imports from China, and provided the foundation for the further normalization of U.S.-Chinese economic relations.

After more than 2 years of negotiations, a bilateral textile agreement was concluded in July 1980 and signed on September 17. Under this accord, certain apparel manufactures from China became subject to agreed levels of trade, which replaced unilateral quantitative restrictions that the United States had imposed on these items in 1979. The accord includes procedures for placing controls on the importation of other textile items that threaten to disrupt the U.S. market.

Three additional bilateral agreements were also signed on September 17, 1980: (1) an air-transport accord that authorized a direct air route between the United States and China for the first time since 1949; (2) a maritime agreement that designated the access of each country's ships to the other country's ports; and (3) a consular convention that substantially expanded the protections and services to be provided by the U.S. consular offices located in China and by the Chinese consulates in this country. Finally, a bilateral agreement committing the Chinese to buy a minimum annual quantity of U.S. grain over the next 4 years was signed on October 22, 1980.

In addition to concluding this series of agreements with China in 1980, the United States initiated a new policy on the export to China of dual-use goods and technology that are controlled for reasons of national security. In April 1980, China was removed from the export control classification that includes the U.S.S.R. and most of the Warsaw Pact countries and placed in a category by itself. The new export guidelines that were subsequently issued (in September 1980) permitted the sale to China of more technologically advanced equipment than would be approved for export to the Soviet Union and other controlled countries. The United States also announced that the export to China of certain types of military support equipment would be considered on a case-by-case basis.

The easing of controls on exports to China followed the imposition of more restrictive controls on exports to the U.S.S.R., beginning in January 1980. These controls included an embargo on the shipment of U.S. agricultural commodities related to the Soviet feed-livestock complex, with the exception of that quantity of wheat and corn exports that were permitted under the U.S.-U.S.S.R. grain supply agreement (8 million metric tons). An embargo was also placed on the shipment of phosphates that support the agricultural complex and on the export of oil and gas equipment. In addition, more restrictive criteria were applied in granting U.S. licenses to export high-technology equipment and materials that could be critical to the Soviet defense industry.

Despite the deterioration of political relations between the United States and the Soviet Union and the U.S. restrictions placed on exports to that country early in 1980, this situation had no notable effect on U.S. relations with the East European NME's. In May 1980 the President recommended that Congress extend for 1 year his authority to waive the freedom of emigration requirements of the Trade Act of 1974 and requested a continuation of the waivers extending MFN tariff treatment to Romania and Hungary. Hearings were held before committees of both houses of the Congress, and no disapproval of the waivers having been made, MFN was automatically extended to these two countries through July 2, 1981. 1/ Poland and Yugoslavia also have MFN status, which was granted prior to the passage of the Trade Act of 1974 and is therefore not subject to annual congressional review. Bulgaria, Czechoslovakia, and East Germany remain subject to the generally higher column 2 tariff rates.

The United States also maintains the column 2 rates of duty on imports from the U.S.S.R., Albania, and Mongolia. In addition, trade embargoes remain in force against the Communist countries of Cuba, North Korea, Vietnam, and Democratic Kampuchea.

U.S.-NME trade in 1980

The level of trade between the United States and the NME's rose only 3 percent in 1980, reaching $11.3 billion. This was a marked departure from earlier steep increases: 53 percent in 1979 and 52 percent in 1978. Imports and exports each increased less than 3 percent in 1980; when adjusted for inflation, the level of trade with the NME's declined. The share of total U.S. trade accounted for by trade with NME's actually fell in 1980: these countries accounted for 4.5 percent of overall U.S. exports in 1979 and only 3.8 percent of such exports in 1980. The comparable figures for U.S. imports were 1.4 percent in 1979 and 1.2 percent in 1980. The United States has consistently maintained a positive trade balance with the Communist countries: in 1980, the value of exports to the NME's was more than three times greater than the value of imports from these countries. The U.S. surplus amounted to $5.4 billion. The value of U.S. trade with the major NME countries in recent years is shown in table 13.

China.--Among developed countries, the United States is the second largest trading partner of the Chinese, Japan being the first. The significance of the U.S.-China trading relationship has increased over the recent past (table 14), with the U.S. share in Chinese imports increasing from 9 percent in 1978 to 21 percent in 1980. The United States remains a major market for Chinese goods, exports having more than tripled between 1978 and 1980. In 1980, China replaced the U.S.S.R. both as the principal NME source of U.S. imports and as the most important NME purchaser of U.S. exports. More than half the favorable balance of trade between the United States and the NME's is accounted for by China (table 13).

The recent very rapid rates of growth in U.S.-China trade are, however, unlikely to be sustained. In 1980 China was forced to reassess its economic development plans. In addition to the pressures that a shortage of foreign exchange had placed upon China's modernization program, a number of domestic economic problems emerged: an inflationary trend, continuing deficits in the national budget, energy shortages, unemployment, and inefficiencies associated

1/ The extension of MFN treatment to products from China was also reviewed during the 1980 congressional hearings and was continued for another year.

Table 13.--U.S. exports, imports and trade balance with selected NME trading partners, 1978-80

(in millions of United States dollars)

Country/region	1978	1979	1980
	Imports		
China	317	549	1,039
U.S.S.R	530	873	430
Eastern Europe	970	983	957
Poland	436	426	415
Hungary	69	112	104
East Germany	35	36	43
Czechoslovakia	57	50	61
Romania	345	329	311
Bulgaria	28	30	23
Total	1,817	2,405	2,426
	Exports		
China	818	1,717	3,749
U.S.S.R	2,249	3,604	1,510
Eastern Europe	1,415	2,056	2,332
Poland	677	786	710
Hungary	98	78	79
East Germany	170	355	477
Czechoslovakia	105	281	185
Romania	317	500	720
Bulgaria	48	56	161
Total	4,482	7,377	7,591
	Trade Balance		
China	501	1,168	2,710
U.S.S.R	1,719	2,731	1,080
Eastern Europe	445	1,073	1,375
Poland	241	360	295
Hungary	29	-34	-25
East Germany	135	319	434
Czechoslovakia	48	231	124
Romania	-28	171	409
Bulgaria	20	26	138
Total	2,665	4,972	5,165

Source: Complied from official statistics of the U.S. Department of Commerce.

Note.--Because of rounding, figures may not add to the totals shown.

Table 14.--Chinese imports and exports with major trading partners and with the world, 1978-80

(in millions of U.S.dollars)

Country/region	1978	1979	1980
		Imports	
Developed countries:			
EC	2,101	3,171	2,642
Canada	486	558	816
Japan	3,381	4,041	5,620
United States	906	1,896	4,131
All DC's	7,923	11,180	14,843
LDC's:			
OPEC	60	80	108
Mexico	137	126	103
All LDC's	1,943	2,946	4,650
Total	9,865	14,126	19,493
		Exports	
Developed countries:			
EC	1,105	1,679	2,386
Canada	83	143	132
Japan	1,859	2,667	3,951
United States	324	594	1,056
All DC's	3,736	5,586	8,143
LDC's:			
OPEC	893	1,110	1,385
Mexico	27	40	63
All LDC's	5,067	6,674	9,166
Total	8,803	12,260	17,309

Source: IMF Direction of Trade Yearbook 1981, pp. 121-23.

with the lack of an adequate economic infrastructure. The resultant cutback in investment projects, particularly those involving heavy capital investment, is likely to slow the growth of U.S. exports to China for several years.

U.S.S.R.--U.S. trade with the Soviet Union in 1980 was greatly influenced by the application of the trade sanctions against the U.S.S.R. early in the year, following the Soviet invasion of Afghanistan. U.S.-Soviet bilateral trade plunged to less than one-half the 1979 level. U.S. exports declined 58 percent, principally because of the partial grain embargo, and U.S. imports dropped 50 percent, mainly because of decreased shipments of Soviet gold.

Declining trade with the United States in 1980 was in contrast to continued growth in Soviet trade with other Western countries (table IV-8). The rise in energy prices in 1979 contributed to a sharp improvement in Soviet terms of trade with developing countries and enabled the Soviets to bring 1980 trade into balance.

Table 15.--U.S.S.R. imports and exports with major trading partners and with the world, 1978-80

(In millions of U.S. dollars)

Country/region	1978	1979	1980
		Imports	
Developed countries:			
EC	7,286	8,711	10,494
Canada	494	646	1,303
Japan	2,529	2,443	2,796
United States	2,252	3,607	1,513
All DC's	15,472	19,156	21,500
LDC's:			
OPEC	135	171	231
Mexico	5	5	4
All LDC's	5,977	6,562	9,622
Total	21,449	25,717	31,121
		Exports	
Developed countries:			
EC	7,831	10,785	14,090
Canada	33	54	51
Japan	1,321	1,723	1,703
United States	510	822	457
All DC's	12,565	18,089	22,257
LDC's:			
OPEC	310	371	447
Mexico	4	1	12
All LDC's	4,950	5,735	7,241
Total	17,515	23,824	29,498

Source: IMF Direction of Trade Yearbook 1981, pp. 387-88.

In 1978 the United States was the third largest Western supplier to the Soviet Union, after West Germany and Japan. The trade sanctions assured that such a position could not be maintained, and in 1980 the United States ranked eighth behind West Germany, France, Japan, Finland, Australia, Italy, and the United Kingdom. As a Western market for Soviet goods the United States is not significant, accounting for almost 3 percent of Soviet exports in 1978 and only 1.5 percent in 1980. Since trade in agricultural goods accounts for over 50 percent of bilateral trade, developments in this area will greatly influence the future course of the U.S.-Soviet trading relationship. 1/

1/ The 5-year U.S.-U.S.S.R. grain supply agreement was scheduled to expire in September 1981, but on Aug. 5, 1981, the agreement was extended for 1 year under the same terms. Talks began in Moscow on Sept. 30, 1981, to renegotiate the agreement, and an announcement was made on October 1 that

Eastern Europe.--U.S. trade with Eastern Europe increased 8 percent in 1980, following a 28-percent increase in 1979. No major changes occurred in U.S. commercial relations with these countries (listed in table IV-6); however, a shortage of hard currency placed severe restrictions upon their imports from the United States, as well as from other Western countries. U.S. exports to the region, almost double the level of U.S. imports from there, grew by only 10.6 percent in 1980, compared with 47.8 percent in 1979. East European imports from the United States were limited largely to food, feedgrains, fuels (primarily coal), and raw materials for high-priority industries. In 1980, Government planners in these countries increased investment in import-substituting manufactures, i.e., domestic manufactures to replace hard-currency imports. At the same time, production for export was also promoted. However, U.S. imports from the region increased by only 2.3 percent over those in 1979.

Some notable changes occurred in U.S. bilateral trade with some of the East European countries in 1980. Both U.S. exports to Poland and imports from that country declined as the strikes in Poland, which began in July, became widespread and led to a substantial decline in domestic output. Poland was forced to restrict imports to only the most essential items as its trade deficit with the West increased and its hard-currency debt, already the largest among the East European countries, approached $25 billion. As a result, in 1980 Yugoslavia replaced Poland as the leading East European trading partner of the United States. On the other hand, primarily because of larger grain sales, the United States registered a 188-percent increase in exports to Bulgaria. Grain shipments were also the major factor contributing to an increase in U.S. trade with Romania and East Germany.

West Germany continued to be the largest Western trading partner of the East European countries. In 1980, the value of its exports to the region reached $10.8 billion, and its imports from these countries were $8.8 billion. Among the industrial countries of the West, the United States ranked second as a supplier to this market. However, imports from Eastern Europe by both Italy and France exceeded those by the United States in 1980.

CHAPTER V

ADMINISTRATION OF UNITED STATES TRADE LAWS AND REGULATIONS

U.S. Acts Under Provisions for Import Relief

Sections 201 and 203 of the Trade Act of 1974, the "escape clause" provisions, specify the procedures and conditions for providing import relief to industries seriously injured or threatened with serious injury by import competition. 1/ Under these provisions, the President may grant an industry a temporary period of relief in the form of tariff increases, quotas, or orderly marketing agreements. A similar provision to remedy "market disruption" by imports from nonmarket economy countries is contained in section 406 of the law. 2/

Article XIX of the General Agreement on Tariffs and Trade (GATT) is the "escape clause," which allows contracting parties to temporarily suspend trade concessions by raising tariffs or imposing quotas. 3/ Under the GATT escape clause, countries may withdraw tariff concessions if unanticipated rising imports threaten to injure domestic producers. A concession may be withdrawn or modified only for as long as and to the extent necessary to prevent or remedy harmful import competition. Unless critical circumstances call for immediate action, invocation of the clause is subject to prior consultation with interested trading partners.

Import relief often temporarily suspends trade concessions to which the invoking country is committed. Therefore, a country granting escape-clause relief to its producers may be required to make compensatory trade concessions on other products to its GATT partners or to other countries with which the concessions were negotiated. For these reasons, escape-clause cases are judged by the most stringent criteria of import-related injury in U.S. trade law.

1/ The U.S. escape clause has a long history. The practice of including a "standard escape clause" in U.S. trade agreements began in the early 1940's and was later mandated by Executive Order 9832 (Feb. 25, 1947). The first escape clause law was sec. 7 of the Trade Agreements Extension Act of 1951.

2/ Nonmarket economy countries (NME's) include all non-MFN countries, listed in headnote 3(f) of the Tariff Schedules of the United States, plus Hungary, the People's Republic of China, Poland, Romania, and Yugoslavia, which have been accorded MFN tariff treatment but are considered to be NME's.

3/ During the multilateral tariff conference which gave rise to the GATT in the late 1940's, the United States stipulated that inclusion of an escape clause in the agreement was necessary before it could participate. The language of GATT Article XIX, "Emergency Action on Imports of Particular Products" was patterned after the standard U.S. escape clause.

Safeguard actions

In the United States, escape-clause cases involve investigations of injury, or threat thereof, to a domestic industry. 1/ Unlike most other import injury procedures, escape-clause cases do not involve charges of unfair acts by foreign countries or firms. Rather, they are based solely on the effect of all imports of the product on the domestic industry. These cases may be instituted by the Commission: (a) upon receipt of a petition from an entity (trade association, firm, labor union, or group of workers) which is representative to a domestic industry; (b) upon its own motion; or (c) at the request of the President or the Committee on Finance of the Senate or the Committee on Ways and Means of the House.

Following receipt of a petition, the Commission initiates an investigation to determine whether: (1) imports are increasing either actually or relative to domestic production, (2) a domestic industry producing an article like or directly competitive with the item is being seriously injured, or threatened with serious injury, and (3) if the rising volume of imports is a substantial cause of such serious injury or threat thereof. All three criteria must be met in order for the Commission to decide affirmatively on the petition.

In determining whether an industry is seriously injured or threatened with serious injury, the Commission must take into account "all economic factors which it considers relevant," including certain statutorily mandated factors. 2/ Furthermore, imports must be a "substantial cause" of the serious injury. Substantial cause is defined as "a cause which is important and not less than any other cause." With respect to causation, the Commission is directed to take into account all economic factors it considers relevant, including whether "an increase in imports (either actual or relative to domestic production) and a decline in the proportion of the domestic market supplied by domestic producers" is occurring.

1/ Industry was defined in section 201(a)(3) of the Trade Act of 1974 so that "[The Commission] (A) may, in the case of a domestic producer which also imports, treat as part of such domestic industry only its domestic production, (B) may, in the case of a domestic producer which produces more than one article, treat as part of such domestic industry only that portion or subdivision of the producer which produces the like or directly competitive article, and (C) may, in the case of one or more domestic producers, who produce a like or directly competitive article in a major geographic area of the United States and whose production facilities in such area for such article constitute a substantial portion of the domestic industry in the United States and primarily serve the market in such area, and where the imports are concentrated in such area, treat as such domestic industry only that segment of the production located in such area."

2/ For example, Sec. 201(b)(2) provides that the Commission consider, with respect to serious injury, "the significant idling of productive facilities in the industry, the inability of a significant number of firms to operate at a reasonable level of profit, and significant unemployment in the industry."

If the Commission makes an affirmative determination or is equally divided it must recommend import relief in the form of new or increased duties, quotas, or adjustment assistance. If the Commission makes a negative injury determination, it would not recommend relief and none could be provided under the authority of section 201.

The Commission would recommend only such relief as the President is authorized to proclaim, as set forth in sections 202 and 203 of the Trade Act of 1974. Thus, the Commission could recommend that the President increase or impose tariffs, a tariff-rate quota (a form of tariff), or a quantitative restriction (quota). No tariff could be increased to a level more than 50 percent above the existing level (e.g., from 10 to no more than 60 percent) and no quota could prohibit the entry of less than that quantity of imports of the subject product entered during the most recent representative period. The President could also negotiate orderly marketing agreements (OMA's) with foreign supplying countries, but the Commission would not recommend the negotiation of such agreements. 1/ Relief may be provided for an initial period of up to 5 years and relief may be extended for an additional period of 3 years.

If the Commission finds that adjustment assistance can remedy the injury, it can recommend the provision of such assistance instead of import relief (tariffs, etc.). If the Commission recommends such assistance or if the President determines that such assistance would be more appropriate than import relief, the President is to direct the Secretaries of Labor and Commerce to give "expeditious consideration" to petitions from workers, firms, and communities for such assistance. (It should be noted that firms, workers, and communities would still be required to file petitions with the appropriate Secretary, something they could have done without the Presidential directive.)

Under the statute, the Commission, at the request of the President, reports on industry conditions, market trends, and adjustment efforts for any industry which has been granted import relief as a result of a section 201 proceeding. Prior to the termination of the initial period of import relief, section 203(i)(3) of the act directs the Commission, at the request of the protected industry, to analyze and advise the President on the impact of terminating import relief.

After considering advice received from the Commission, the Secretary of Labor, and the Secretary of Commerce, the President may extend import relief for a period not to exceed 3 years, if he determines that such extension is in the national interest. The President may also deny an extension or narrow

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1/ While the statute does not expressly prohibit the Commission from recommending negotiation of OMA's, the Commission generally would not do so because such a recommendation could frustrate Congress' "override" authority in section 203(c) of the Trade Act (discussed below). It would be difficult for Congress to force the President to negotiate a given result with foreign governments.

the scope and lower the level of protection. Congress does not have authority to override a Presidential decision on extending, modifying, or terminating measures under section 203.

The Commission conducted five investigations under section 201 in 1980 on the following commodities: certain fish, fresh cut roses, leather wearing apparel, mushrooms, and certain motor vehicles and certain chassis and bodies therefor.

Certain fish.--On January 29, 1980, the Commission reported to the President its determination, by a 3-to-0 vote, that imports of ground fish were not being imported into the United States in such increased quantities as to be a substantial cause of serious injury to the domestic industry harvesting and processing like or directly competitive products. Investigation TA-201-41 had been undertaken on September 5, 1979, upon receipt of a petition from the Fishermen's Marketing Association of Washington, Inc., and the Coast Draggers Association of Westport, Wash.

Fresh cut roses.--On March 28, 1980, the Commission made a negative determination by a 5-to-0 vote in investigation No. TA-201-42, Fresh Cut Roses. A petition charging injury was filed by Roses, Inc., a trade association representing U.S. rose growers, on September 5, 1979. The Commission found that neither the "serious injury" nor the "substantial cause" requirements of the statute were met in this case.

Leather wearing apparel.--On January 24, 1980, the Commission unanimously recommended that increased tariffs be imposed for a period of 3 years, as a result of a finding of injury in its investigation No. 201-40 on leather wearing apparel. The investigation was initiated on August 3, 1979, by petition from a trade association and several unions. 1/ The President rejected the Commission's recommendation in favor of expedited adjustment assistance.

Mushrooms.--On August 14, 1980, the Commission determined, by a 4-to-0 vote, that imports of prepared or preserved mushrooms were a substantial cause of serious injury or threat thereof and recommended that quantitative restrictions be imposed on mushrooms, provided for in item 144.20 of the TSUS, for the 3-year period commencing July 1, 1980. The recommended limits were 86 million pounds (drained weight) for the first year, to be increased by 9.7 percent in each subsequent year. The Commission further recommended that the President allocate the quantitative restrictions on a per country basis as he deemed appropriate. The investigation, TA-201-43, found that the ratio of imports of domestic production of canned mushrooms increased

1/ The unions were The National Outerwear Sportswear, Association, Amalgamated Clothing Textile Workers Union, Tanners Council of America, and the United Food Commercial Workers Union.

from 68 percent in 1974/75 to 96 percent in 1978/79. Furthermore, the industry's aggregate net operating profit dropped 58 percent from 1977 to 1979, and aggregate net sales decreased by 4 percent between 1977/78 and1978/79. Of the 17 producers able to provide the Commission with usable profit-and-loss data on their mushroom canning operations, over half operated at a loss in 1979. On November 1, 1980, the President increased tariffs for a 3-year period as follows: first year, 20 percent ad valorem; second year, 15 percent ad valorem; and, third year, 10 percent ad valorem.

Automobiles.--By far the most publicized case considered by the Commission in 1980 was the automobile industry investigation, No. TA-201-44, Certain Motor Vehicles and Certain Chassis and Bodies Therefor. 1/ The case was initiated by a petition filed by the United Auto Workers of America on June 12, 1980. The Ford Motor Company later joined as a copetitioner. The Commission launched its investigation on June 30 and held public hearings in Washington from October 8 to October 11. On November 10, the Commission determined, by a 3-to-2 vote, that automobile trucks, on-the-highway passenger automobiles, and bodies (including cabs) and chassis for automobile trucks were not being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry producing like or directly competitive articles. Although the Commissioners all determined that the domestic industry was suffering from serious injury, a majority did not find that increased imports were the substantial cause of such injury.

Other actions under sections 201 and 203.--Effective January 17, 1980, the President decided that tariffs would be increased on U.S. imports of porcelain-on-steel cookware valued at or below $2.25 per pound (except teakettles) following a 1979 affirmative Commission determination in its investigation No. TA-201-39.

Quotas on specialty steels were terminated effective February 13, 1980. The quotas had been in effect since May 24, 1977, and were imposed as a result of the Commission's investigation No. TA-201-05. They were extended on January 18, 1978, until February 13, 1980. The United States had negotiated an OMA with Japan on the subject products, which also terminated on February 13, 1980. 2/

Import relief under section 201 in effect for all or part of 1980 is listed in table 16. In May of 1980, the Commission completed investigation TA-203-6, color television receivers and subassemblies thereof. Import relief for this industry had been granted in March 1977 in the form of an orderly marketing agreement with Japan which was extended to cover Taiwan and Korea in 1979. This relief was scheduled to be terminated on June 30, 1980. However,

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1/ For a more in-depth discussion of the automobile case, see ch. I of this report.

2/ For more information on OMA's, consult the OMA section in this chapter of the report.

Table 16.--Escape-clause (sec. 201 of the Trade Act of 1974) relief in effect during 1980

Investigation No.	Product, TSUS No.	Major suppliers	Relief/effective date
TA-201-39	Nonelectric cookware (TSUS 654.02).	Japan Taiwan Spain Italy	Increased tariffs for 4 years on U.S. imports of porcelain-on-steel cookware valued at or below $2.25 per pound, except teakettles. Tariffs will be increased by 20, 20, 15, and 10 cents per pound, respectively, in the 1st, 2nd, 3rd, and 4thyears. (1/17/80).
TA-201-36	Clothespins (TSUS 790.05).	Taiwan China Poland West Germany Romania	3-year global quota established in amounts of 2 million gross pins. (2/18/79).
TA-201-37	Bolts, nuts, and large screws of iron or steel (TSUS 646.49, 646.54, 646.56, 646.63, 646.79).	Japan Canada	Increased tariff for 3 years to 15% ad valorem for TSUS 646.49 and 15% ad valorem plus previous specific rate of duty for bolts and nuts (TSUS Nos. 646.56, 646.63, 646.79) (12/26/78).
TA-201-35	High-carbon ferrochromium (TSUS 607.31).	South Africa Brazil Rhodesia Japan Yugoslavia	Increased tariff by $0.04625 for first 3 years. For high-carbon ferrechromium with a customs value of over $0.38/lb. chromium content, no additional duty will be applied. (11/3/78).
TA-201-29	Citizens band transceivers (TSUS 685.25).	Taiwan Korea Japan	Increased tariffs for 3 years to 21% ad valorem in 1978, 18% ad valorem in 1979 and 15% ad valorem in 1980. Rate will return to 6% on Apr. 11, 1981. Removed from GSP eligibility. (3/27/78).
TA-201-19	Color television receivers and subassemblies, thereof, (TSUS 685.20, 687.35 to 687.40).	Taiwan Korea Japan	Orderly marketing agreements with Japan, Korea, and Taiwan were due to expire June 30, 1980; Commission advised that termination of OMA's with Taiwan and Korea would adversely affect domestic industry. President extended OMA's with Taiwan and Korea for two additional years, until June 30, 1982. 1/ (5/20/77).
TA-201-18 and TA-201-7.	Certain footwear (all footwear provided for in schedule 7 of the TSUS, pt. 1A, except 700.51 thru 700.54, 700.60, 700.75, 700.90).	Italy Spain Taiwan Korea	Orderly marketing agreements with Taiwan and Korea terminate on June 30, 1981. 1/ (4/1/77).
TA-201-05	Specialty Steels (stainless and tool) (TSUS 607.26, 607.43, 606.95, 607.28, 607.34, 607.46, 607.54, 607.72, 607.88, 608.34, 608.49 and 608.64).	Japan Sweden EC	Orderly marketing agreement with Japan. Quotas on imports from other suppliers. Quotas extended on 1/18/78 until 2/13/80. 1/ (5/24/77).

1/ For restraint levels, see "Orderly Marketing Agreements" section of this report.

the Commission unanimously found that termination of the import relief, with the exception of quantitative restrictions on complete and incomplete receivers from Japan, would have an adverse economic effect on the domestic industry. The Commission found that imports of Japanese TV sets no longer posed a serious threat to domestic producers. Higher levels of Japanese investment in facilities in the United States, the Commission felt, had changed the effect of Japanese exports on the U.S. industry. The President accepted the Commission's recommendation that the OMA with Japan be terminated and that the OMA's with Taiwan and Korea be extended for two additional years, until June 30, 1982.

Adjustment Assistance

Title II of the Trade Act of 1974 provides that adjustment assistance may be used as a form of escape-clause relief. The adjustment assistance may take the form of trade readjustment training and relocation allowances for workers; technical and capital support for firms; and loan guarantees and other assistance to communities adversely affected by increased imports. Programs for displaced workers are administered by the U.S. Department of Labor, and programs for communities and firms, by the Economic Development Administration (EDA) of the U.S. Department of Commerce.

During 1980, the Department of Labor investigated 5,348 petitions for adjustment assistance. It completed 3,214 cases and made 866 complete certifications and 34 partial certifications. 1/ Approximately 651,390 workers received their first payments of trade adjustment allowances in 1980, and total trade adjustment allowance payments amounted to $2.2 billion at year-end. In addition, workers received benefits in the form of testing, job training, job-search allowances, referrals, and expense allowances for moving to new job locations.

Commerce's EDA certified 446 firms as eligible to apply for adjustment assistance during 1980, including 134 wearing apparel firms, 35 wood and panel product firms, 25 communication and sound equipment firms, 19 textile firms, and 17 firms each in the footwear and machinery and equipment industries. The balance of the 446 firms came from 40 industries or product groups.

Under the Trade Act of 1974, adjustment assistance for firms is authorized in the form of direct loans and loan guarantees for financing plant acquisition, construction, or modernization, expansion or conversion of productive facilities, and the purchase of machinery and equipment. During fiscal year 1980, EDA approved the adjustment proposals of 71 firms and authorized $73 million in financial assistance, including $43 million in direct loans and $30 million in loan guarantees. Direct technical assistance from EDA was provided to 15 firms during fiscal 1980.

1/ Partial indicates that not all of the workers covered by the petition were certified.

The operations of EDA's field offices are supplemented by 10 trade adjustment assistance centers (TAACs), all operated by nonprofit organizations which receive EDA grants. Each TAAC offers a variety of services to trade injured firms including guidance in preparing petitions for certification, and comprehensive assistance to EDA-certified firms in developing and carrying out their recovery plans. Technical assistance to trade-impacted firms and industries through the TAACs amounted to $17.6 million in fiscal 1980.

Communities adversely affected by import competition are also eligible for adjustment assistance under the act. Petitions may be filed by a single community, a group of communities, or on their behalf by the Governor of the State. Because the communities often have additional economic problems not directly linked to rising imports and often are unable to gather the necessary data to qualify under the Trade Act, EDA advises them to petition for assistance under programs covered by the Public Works and Economic Development Act of 1965, as amended, rather than under the more limited provisions of the 1974 Trade Act.

The Department of Commerce uses the legal authority granted to it in the Public Works and Economic Development Act of 1965, as amended, to assist injured industries and to help communities adversely affected by imports. In 1980, EDA awarded $19.5 million in grants to such communities. Among other things, the grants aided the development of new industrial sites, renovation of deteriorating industrial buildings, and the operation of business retention and expansion programs.

Assistance to industries on which imports have an adverse impact is delivered by three organizations within the Department of Commerce: the EDA, the International Trade Administration, and the Office of Productivity, Technology and Innovation. They work toward enhancing industry competitiveness both in home markets and abroad, and toward stimulating exports of the affected industries. Programs focus on improving technology, productivity, product lines, marketing, and management techniques. Generally, programs of industry wide assistance stem from Commerce initiatives, although many of the industries listed in the following paragraph have participated in escape-clause cases.

During 1980, the Department of Commerce continued to give technical assistance to the footwear, apparel, and textile industries. In addition, it made technical assistance grants to eight industry associations whose members produce work gloves, jewelry, handmade glass, ceramic tile, paper machinery, textile machinery, handbags, and shakes and shingles. Efforts initially funded in 1978 and 1979 were also continued in 1980 for industries producing stainless steel flatware, industrial fasteners, consumer electronics, steel, cutlery, mushrooms, vitreous chinaware, earthen tableware, and fisheries.

Market Disruption

Under provisions of section 406 of the Trade Act of 1974, imports from Communist countries are determined to cause market disruption in a domestic industry, "whenever imports of an article . . . like or directly competitive with an article produced by such domestic industry are increasing rapidly, either absolutely or relatively, so as to be a significant cause of material injury or threat thereof, to such domestic industry." The U.S. International Trade Commission conducts investigations to ascertain whether market disruption exists. If the Commission determines that market disruption does exist, it must "find the amount of increase in, or imposition of, any duty or other import restriction on such article which is necessary to prevent or remedy such market disruption." The President has essentially the same options for import relief as those provided in sections 201 and 203 of the Trade Act.

Market disruption cases differ from escape-clause cases in two ways. First, the President's action may be directed only at the Communist country or countries from which the imports come; and, second, the "substantial cause of serious injury" test is replaced by the milder "significant cause of material injury" requirement, thereby weakening the causal link to the imports and requiring a lesser degree of injury before taking action. In emergency situations, the President may provide immediate relief pending a finding by the Commission.

The Commission decided on one such case during 1980, involving imports of anhydrous ammonia from the U.S.S.R. The Commission made a negative determination regarding its investigation No. TA-406-6, deciding that imports of anhydrous ammonia from the U.S.S.R. were not causing or threatening to cause material injury to the domestic industry.

Prompted by the Soviet invasion of Afghanistan earlier that month, the President requested, on January 18, 1980, that the Commission initiate an investigation of Soviet shipments of anhydrous ammonia to the United States. With Proclamation No. 4714 of January 18, 1980, he imposed an emergency quota of 1 million short tons on U.S. imports of anhydrous ammonia from the U.S.S.R. for the year beginning January 24, 1980; claiming that "there are reasonable grounds to believe . . . that market disruption exists . . . and that emergency action is necessary."

Several months earlier, the Commission had determined that imports of anhydrous ammonia from the Soviet Union were causing market disruption (investigation No.TA-406-5) and recommended appropriate remedial action. 1/ However, the President rejected the Commission's recommended remedies in

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1/ In July 1979, 12 U.S. producers and 1 U.S. distributor of anhydrous ammonia petitioned the Commission to conduct an investigation to determine whether imports of anhydrous ammonia from the Soviet Union were causing market disruption with respect to an article produced by a domestic industry. The Commission ordered investigation No. TA-406-5, and, by a 3-to-2 vote, it made an affirmative determination in October of that year. In order to remedy the market disruption, the Commission recommended that the President provide relief in the form of quotas on imports of anhydrous ammonia from the Soviet Union for 3 years, as follows: 1980, 1 million short tons; 1981, 1.1 million short tons; and 1982, 1.3 million short tons.

December 1979, finding that import relief was not in the national economic interest. He requested the Commission at that time to issue a series of annual reports on overall market conditions for the ammonia industry.

The Commission made its 1980 negative injury determination on the grounds that changed circumstances, including the January 4 grain embargo and the February 21 embargo on U.S. phosphate exports to the U.S.S.R., had significantly altered U.S. market conditions. As a consequence of the Commission's 3-to-2 negative determination, the January 24 emergency import quota was removed.

Orderly Marketing Agreements; Negotiated Export Restraints

An orderly marketing agreement (OMA) generally involves a bilateral agreement between the United States and an exporting country which embodies, among other things, a quota limiting exports to the U.S. market of certain products. The level and duration of the quota is determined by mutual agreement. The quota is administered by the exporter and also generally formally monitored and controlled by the United States. An OMA is one of the remedies available to the President in escape-clause cases. Such agreements were recognized as a form of import relief in section 352 of the Trade Expansion Act of 1962. OMA's may be preferable to other safeguard remedies, such as unilaterally imposed quotas or tariff increases, because exporting countries party to them have a hand in fashioning them. That country expressly agrees to the measure, voluntarily foregoing its rights to receive compensation or adopt retaliatory measures against U.S. exports. Because OMA's agreed to by the exporting country do not change bound concessions, they are not subject to the discipline of the GATT. In 1980, such agreements were in effect for color television receivers, nonrubber footwear, specialty steel, and textiles.

Nonrubber footwear

In 1977, the U.S. International Trade Commission conducted an escape-clause investigation on nonrubber footwear at the request of the Senate Finance Committee. After a Commission finding of serious injury, the President negotiated OMA's with Taiwan and the Republic of Korea for the period June 28, 1977, through July 1, 1981. The OMA's covered all kinds of nonrubber footwear except wool felt (TSUS 700.75) and disposable footwear designed for one-time use (TSUS 700.90). Base limits and allowed increases for each item are listed in table 17. The overall restraint levels are as follows (in millions of pairs):

Table 17.—Nonrubber footwear: temporary restraint levels on nonrubber footwear, by TSUS items and restraint periods, June 28, 1977-June 30, 1981

Country and items	June 28, 1977-June 30, 1978		July 1, 1978-June 30, 1980		July 1, 1979-June 30, 1981		July 1, 1980-June 30, 1981	
	Base limit	Maximum increase 1/	Base limit	Maximum increase 1/	Base limit	Maximum increase 1/	Base limit	Maximum increase 1/
	1,000 pairs	Percent	1,000 pairs	Percent	1,000 pairs	Percent	1,000 pairs	Percent
Taiwan:								
Footwear provided for in items 700.05 through 700.45.	9,760	10	10,000	10	10,240	10	10,480	10
Footwear provided for in item 700.58.	104,680	10	107,250	10	109,820	10	112,400	10
Footwear provided for in items 700.66 through 700.95. 2/	7,560	15	7,750	15	7,940	15	8,120	15
Republic of Korea:								
Footwear provided for in items 700.05 through 700.45 (except athletic footwear).	11,520	10	12,740	10	13,090	10	13,260	10
Athletic footwear provided for in items 700.05 through 700.45; footwear provided for in items 700.58, and 700.66 through 700.95. 2/	1,480	15	23,760	15	24,410	15	24,740	15

1/ Maximum increase in imports allowed during the restraint period.
2/ Except item 700.75 and disposable footwear designed for one-time use provided for in item 700.90.

Source: Tariff Schedules of the United States Annotated (1981), appendix, part 2, subpart A.

Restraint period	Restraint level	
	Taiwan	Korea
June 28, 1977-June 30, 1978	122	33.0
July 1, 1978-June 30, 1979	125	36.5
July 1, 1979-June 30, 1980	128	37.5
July 1, 1980-June 30, 1981	131	38.0

The President requested the Commission to issue quarterly and annual reports on industry and market conditions and on adjustment efforts. The Commission was scheduled to advise the President on the probable economic effect of extending, terminating, or revising the OMA's on nonrubber footwear on April 22, 1981. 1/

Color television receivers

Japanese color television receivers have entered the United States under OMA restraints since July 1, 1977, following an affirmative injury determination by the Commission on investigation No. TA-201-19, Color Television Receivers. For each 12-month period from July 1, 1977, to June 30, 1980, Japanese exports of television receivers to the United States were limited to 1.56 million complete (assembled or unassembled) receivers and 190,000 incomplete receivers.

The OMA includes a stipulation that the Government of Japan may initiate consultations with the Government of the United States if third country exports to the United States of the products covered by the agreement are disadvantageous to Japan. In line with his responsibility for monitoring the OMA, the United States Trade Representative (USTR) found that imports of color television receivers and certain subassemblies from Taiwan and the Republic of Korea had increased to such a degree as to disrupt the effectiveness of the agreement with Japan. In accordance with this finding, the USTR negotiated OMA's covering color television receivers with Taiwan and Korea in December 1978. They were extended in 1980 for an additional 2 years. 1/ The restraint levels are as follows:

1/ The Commission recommmended the extension of relief on imports from Taiwan and the termination of relief on imports from Korea Nonrubber Footwear, Report to the President on Investigation No. TA-203-7 . . . , USITC Publication 1139, April 1981. The President terminated all relief effective June 30, 1981.

Country and article	Restraint level (units)
Taiwan:	
Color television receivers, having a picture tube, exported during--	
July 1, 1979-June 30, 1980	373,000
July 1, 1980-June 30, 1981	400,000
July 1, 1981-June 30, 1982	425,000
Certain subassemblies thereof, exported during--	
July 1, 1979-June 30, 1980	648,000
After July 1, 1980	1/
Republic of Korea:	
Color television receivers, having a picture tube, exported during--	
July 1, 1979-June 30, 1980	136,000
July 1, 1980-June 30, 1981	385,000
July 1, 1981-June 30, 1982	575,000
Certain subassemblies thereof, exported during--	
July 1, 1979-June 30, 1980	136,000
After July 1, 1980	1/

1/ No restrictions.

As previously noted, the Commission advised the President on May 16, 1980, that terminating such relief with respect to Taiwan and Korea would have a negative effect on the domestic industry. The Commission further recommended that the OMA with Japan be terminated. It was subsequently terminated effective June 30, 1980.

Specialty steel

The first OMA under the Trade Act of 1974 was negotiated by the United States following a finding of injury by the Commission in its investigation covering imports of certain stainless steel and alloy tool steel (No. TA-201-5). Knowing that the United States intended to provide import relief in the form of quotas, Japan agreed to accept an OMA covering certain specialty steel. Quantitative limits set out in the OMA were to be in effect from June 14, 1976, through June 13, 1979. In addition, quotas were imposed unilaterally on imports of specialty steel from other countries during the same 3-year period.

On April 24, 1979, the U.S. International Trade Commission reported to the President on its investigation No. TA-203-5, which analyzed the economic impact on the domestic industry of terminating the import relief. The Commission was evenly divided in its advice, and the President determined on June 12, 1979, that an 8-month extension of quota treatment was in the

1/ See discussion on investigation No. TA-203-6 earlier in this report.

national interest. Restraint levels for the final period of the restrictions, December 14, 1979, to February 13, 1980, were as follows (in short tons):

	Quantity
Japan	14,620
EC	6,009
Canada	2,777
Sweden	5,010
Austria	417
Other	32,787

Textiles

The Arrangement Regarding International Trade in Textiles, known as the Multifiber Arrangement (MFA), is an international agreement which provides the basis for a large number of bilateral trade agreements governing international trade in textiles. Under the 50-nation accord, countries are obliged to allow textile imports to increase up to 6 percent annually. A protocol to the agreement allows importing countries to make "reasonable departures" from that commitment.

The MFA went into effect on July 1, 1974, and was subsequently renewed for an additional 4 years through the end of 1981. 1/ Negotiations on further renewal opened in December 1980.

At yearend 1980, the United States had bilateral agreements limiting textile imports with 22 countries, 19 of which were negotiated within the MFA framework. The three non-MFA textile agreements were those with Taiwan, Costa Rica, and China, nations that are not signatories to the Arrangement. Most of the agreements cover articles of cotton, wool, and/or manmade fibers. The restraint levels provided for in bilateral agreements for calendar year 1980 are shown in table 18.

In addition, the United States had agreements during 1980 with 10 other countries which provide for consultations and possible limitations when problems arise. These other countries are Czechoslovakia, Egypt, Greece, Hungary, Jamaica, Malta, Nicaragua, Peru, Portugal, and Spain.

The President is authorized to negotiate such bilateral agreements under section 204 of the Agricultural Act of 1956, as amended. Under article 4 of the MFA, bilateral agreements must be consistent with overall guidelines contained in the MFA. In negotiating these agreements, the MFA guideposts for flexibility of administration and import target growth rates for restraints are considered.

1/ The MFA was preceded by the Long Term Arrangement Regarding International Trade in Cotton Textiles (LTA) which was signed on Apr. 30, 1962.

Table 18.--Bilateral restraint levels on exports of textiles to the United States, by sources, 1980

Source	Fibers included in category and/or group limits	Aggregate limits
		Million equivalent square yards
Brazil	Cotton	1/ 149.4
China	Cotton, wool, and manmade fibers	2/ 80.8
Colombia	do	2/ 128.7
Costa Rica	Manmade fibers 3/	7.6
Dominican Republic	Cotton, wool, and manmade fibers	2/ 30.5
Haiti	do	2/ 89.5
Hong Kong	do	2/ 1,076.1
India	do	2/ 213.2
Japan	do	2/ 258.6
Korea	do	660.3
Macau	do	43.1
Malaysia	do	2/ 78.8
Mexico	do	2/ 252.0
Pakistan	Cotton	171.7
Philippines	Cotton, wool, and manmade fibers	270.6
Poland	do	50.5
Romania	do	2/ 91.0
Singapore	do	261.9
Sri Lanka	do	2/ 30.9
Taiwan	do	852.8
Thailand	do	2/ 141.4
Yugoslavia	Wool and manmade fibers 4/	2/ .8

1/ Limit applicable to the period Apr. 1, 1980-Mar.31, 1981. The limit was the same during the comparable period of a year previously.

2/ Specific limits on subgroups were also in effect.

3/ These limits pertain only to trade in textile category 649 (manmade fiber brassieres and other body-supporting garments). During 1980 this quantity was limited to 1,575,000 dozen.

4/ The agreement establishes export limits on two products: men's and boys' wool suits and men's and boys' manmade fiber suits.

Source: Compiled from information contained in The Multifiber Arrangement, 1973 to 1980, vol. 2, USITC Publication 1131, March 1981, p. E-2.

The United States generally has two kinds of textile agreements, those which specify quantitative limits on exports to the United States, and those which provide for consultations if textile trade problems arise. Agreements that call for quantitative limitations generally contain "specific" restraint levels, applied to specified textile products, categories of textile products, or groups of categories; they may also include aggregate restraint levels which place overall limits on exports covered by quantitative restrictions. Such quotas often have adaptive mechanisms which allow flexibility, within negotiated bounds, in their administration. 1/ Consultative agreements may provide for consultations only when market disruption occurs; others include negotiated "consultation levels," which trigger discussions when limits are approached or reached.

Among the most significant developments in U.S. textile trade was the signing, on September 17, 1980, of a bilateral agreement with China that provides the framework for trade in cotton, wool and man made fiber textiles and textile products. 2/

The Carter Administration issued a policy directive concerning its textile program on February 15, 1979, pledging global import evaluation, greater control over import surges, and the commitment to seek understandings with major suppliers regarding tighter controls for the remaining life of the bilateral agreements. Consequently, the United States renegotiated and added further restraints to its bilateral agreements with Hong Kong, Korea, and Taiwan, and concluded the new bilateral agreement with China. These actions tightened controls on U.S. textile imports from major suppliers.

U.S. Actions on Unfair Trade Practices

The United States has several laws in effect which allow it to respond to unfair methods of competition and other practices that impair U.S. domestic or foreign commerce. These laws provide countermeasures when foreign governments or entities engage in unreasonable or discriminatory practices that are detrimental to U.S. domestic or foreign commerce or when importers, foreign exporters, or sellers engage in unfair methods of competition in the importation or sale of foreign merchandise in U.S. markets. Section 731 of the Tariff Act of 1930 contains antidumping provisions designed to enable the United States to counter sales of imports in the domestic market at less than fair value. Section 337 of the Tariff Act of 1930 prohibits practices which tend to distort domestic commerce through the use of unfair methods of competition or unfair acts in connection with the importation of articles into the United States, including patent infringement. Subsidies by foreign

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1/ Adaptive measures include "carry-forward" and "carryover" and "swing" provisions. Under carry-forward and carryover provisions, an unused restraint portion of 1 year may, under specified conditions, be added to the restraint level of a following period. "Swing provisions" allow exports within a group or category to exceed the restraint level up to a stipulated percentage, provided there is an offsetting charge against other groups or categories.

2/ For more information on the U.S.-China textile agreement, see the <u>24th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During</u>

governments are dealt with under section 701 of the Tariff Act of 1930, which allows the United States to impose countervailing duties on imports equal to the net subsidy calculated by the Department of Commerce. Finally, acts by governments that pose an unreasonable or discriminatory burden, or otherwise restrict the commerce of the United States are subject to remedy under section 301 of the Trade Act of 1974.

Antidumping Investigations

The Antidumping Act, first enacted in 1921, was intended to prevent unfair foreign competition in the form of price discrimination or below-cost pricing. Under provisions contained in title I of the Trade Agreements Act of 1979, the Antidumping Act of 1921 was repealed, and antidumping provisions were added to the Tariff Act of 1930 as a new Title VII of that act. 1/ The substance of many of the provisions of the Antidumping Act remained intact while revisions changed U.S. law to come in line with the Agreement on Implementation of Article VI of the GATT, commonly referred to as the International Antidumping Code.

The Trade Agreements Act of 1979 differs from the Antidumping Act, 1921, by expediting the investigation stage and shortening the time given the Department of Commerce to determine the dumping margin. In addition, the "material injury" test of the GATT was incorporated in domestic law.

The legitimacy of antidumping actions is explicitly recognized in article VI of the General Agreement on Tariffs and Trade (GATT), which condemns unfair pricing practices by private exporters that threaten to disrupt domestic industries. The article allows countries to counter such actions with duties or other fees designed to bring the price in line with foreign reference prices or production costs. Generally, the price of the same or similar merchandise in the home market is used as the benchmark of fair price.

The purpose of the new provisions is to bring domestic trade legislation in line with the revised antidumping code negotiated in the Tokyo round. The revised antidumping code permits the imposition of provisional measures, such as suspension of liquidation and the posting of a cash deposit, bond or other security, only after an affirmative preliminary determination has been made that sales at less than fair value are imminent or occurring, and if there is a reasonable indication that the domestic industry is materially injured or threatened with material injury. As in the 1921 act, the antidumping duty is imposed in addition to any other duties to which the merchandise is subject.

1/ The Antidumping Act was repealed effective Jan. 1, 1980. Provisions for dealing with cases which were in progress under the Antidumping Act of 1921 were contained in Sec. 102 of the Trade Agreements Act of 1979.

The antidumping cases reviewed by the Commission during 1980 are listed in tables 19 and 20. During the year, the Commission made 27 preliminary and 12 final antidumping determinations. The Commerce Department has responsibility for determining if goods are being sold at less than fair value in the U.S. market and for issuing antidumping duty orders. During 1980, Commerce revoked two outstanding antidumping duty orders and found no sales at less than fair value in two cases.

In March 1980, the Commerce Department determined that tomatoes, peppers, cucumbers, eggplant, and squash from Mexico were not being imported into the United States at less than fair value and terminated the case. 1/ However, the petitioner, the Southwest Florida Winter Vegetables Growers Association, is challenging the Commerce Department's determination in the U.S. Customs Court.

Dumping duties on water circulating pumps from the United Kingdom were revoked by Commerce effective October 15, 1979, by a notice in the Federal Register of January 4, 1980. Commerce revoked the previous (Feb. 7, 1974) finding of sales at less than fair value of picker sticks (TSUS 670.74) from Mexico on June 11, 1980.

At yearend, the following antidumping investigations were pending before the Commerce Department:

Snow-grooming vehicles, parts thereof, and accessories therefor from the Federal Republic of Germany
Certain iron-metal castings from India
Strontium nitrate from Italy
Precipitated barium carbonate from the Federal Republic of Germany
Unrefined montan wax from East Germany
Natural or synthetic menthol from China
Anhydrous sodium metasilicate from France

Trigger Price Mechanism

President Carter introduced the Trigger Price Mechanism in 1978 to monitor the prices of steel mill products imported into the United States. Envisioned as a fast-track method of dealing with allegations of pricing at less than fair value, the system was intended to forestall a large number of industry-initiated antidumping investigations. The system was designed to allow the U.S. Customs Service 2/ to self-initiate antidumping investigations if price monitoring of imported steel mill products reveals that imports are likely to be sold in the United States at less than fair value. By anticipating sales of imports in the United States at less than fair value, the impact of those imports could be limited. The calculation of the trigger

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1/ For more information, see the Mexico section of ch. IV.
2/ Responsibility for administration of the TPM was transferred to Department of Commerce on Jan. 2, 1980, along with other functions related to antidumping law.

Table 19.--Preliminary antidumping investigations under sec. 731, Tariff Act of 1930, completed by the Commission in 1980

Investigation No.	Article and country	Commission determination
731-TA-4	Countertop microwave ovens from Japan.	Reasonable indication of injury.
731-TA-5 and 731-TA-6	Rail passenger cars and parts thereof from Italy and Japan.	No reasonable indication of injury.
731-TA-8 through 731-TA-11	Sodium hydroxide in solution from the Federal Republic of Germany, France, Italy, and the United Kingdom.	No reasonable indication of injury.
731-TA-15	Pipes and tubes of iron or steel from Japan.	No reasonable indication of injury.
731-TA-17	Clams in airtight containers from Canada.	No reasonable indication of injury.
731-TA-18 through 731-TA-24	Carbon steel products from Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, the Netherlands, and the United Kingdom.	Reasonable indication of injury.
731-TA-25	Anhydrous sodium metasilicate from France.	Reasonable indication of injury.
731-TA-27	Menthol from Japan	No reasonable indication of injury.
731-TA-29	Asphalt roofing shingles from Canada.	Reasonable indication of injury.
731-TA-30	Montan wax from East Germany	Reasonable indication of injury.
731-TA-31 through 731-TA-33	Barium carbonate and strontium carbonate from the Federal Republic of Germany and Italy.	Reasonable indication of injury.
731-TA-35	Portable electric nibblers from Switzerland.	No reasonable indication of injury.
731-TA-36	Snow grooming vehicles, parts thereof and accessories therefor from the Federal Republic of Germany.	No reasonable indication of injury.
731-TA-37	Certain iron-metal castings from India.	Reasonable indication of injury.

Table 20.--Antidumping investigations under sections 731 and 751 of the Tariff Act of 1930, completed or pending by the Commission in 1980.

Investigation No.	Article and country	Commission determination	Outcome
731-TA-1	Spun acrylic yarn from Japan	Injury	Dumping duties imposed on a case-by-case basis.
731-TA-2	Spun acrylic yarn from Italy	Injury	Dumping duties imposed 48.05% ad valorem.
731-TA-3	Sugars and sirups from Canada	Injury	Dumping duties imposed on a case-by-case basis.
731-TA-7	Certain electric motors from Japan	Injury	Dumping duities imposed 6.7% ad valorem.
731-TA-12	Portable electric typewriters from Japan.	Injury	Dumping duties imposed on a case-by-case basis.
731-TA-13 and 731-TA-14	Melamine in crystal form from Austria and Italy.	No injury	Case terminated.
731-TA-25	Anhydrous sodium metasilicate from France.	Injury	Dumping duties imposed 60% ad valorem on f.o.b. value.
731-TA-26	Certain steel wire nails from Korea.	No injury	Case terminated.
751-TA-1	Electric golf cars from Poland	No injury in the event the order were to be revoked.	Revocation of dumping finding effective 6/11/80.
751-TA-2	Television receivers, monochrome and color from Japan.	Pending	
751-TA-3	Potassium chloride from Canada	Pending	

prices incorporates the estimated production and shipping costs of the world's most efficient producer--currently Japan. 1/ This price is compared with the price at which steel imports enter into the United States or are sold to the first unrelated purchaser in the United States. If imports enter below the trigger prices, Commerce conducts a preliminary inquiry utilizing importer questionnaires, and evaluates the situation to determine whether an antidumping investigation should be initiated. Revisions of the trigger-price levels to reflect current costs of production and shipping are announced quarterly by the Department of Commerce and, from time to time, TPM product coverage is modified.

Following a March 19 announcement by the Department of Commerce that trigger prices for the second quarter of 1980 would remain at their first quarter levels, the U.S. Steel Corp. filed antidumping charges against steel imports worth nearly $1.3 billion annually from the Federal Republic of Germany, France, Italy, Luxembourg, the Netherlands and the United Kingdom. The Secretary of Commerce subsequently suspended the Trigger Price Mechanism on March 21, noting that "the basis upon which the TPM was maintained no longer exists. The TPM was designed to substitute for, not to supplement, major antidumping cases by the domestic industry." At that time, Commerce left the possibility open of reinstituting the program if antidumping charges were withdrawn or satisfactorily resolved. On April 10, the Department of Commerce instituted separate antidumping investigations against each country (excluding certain products from its scope). 2/ The Commission followed suit with its preliminary investigations Nos. 731-TA-18 through 731-TA-24. On the basis of the evidence revealed in their preliminary studies the Commission determined in May that there was a reasonable indication that the domestic industry was being materially injured. On October 2, 1980, U.S. Steel withdrew its antidumping actions, and the Department of Commerce reintroduced the TPM, effective October 21, for a transition period of 3 to 5 years. The Secretary of Commerce is to review the progress toward restructuring made by the industry before the end of 3 years; if the TPM is not found to have helped the industry restructure, the TPM will be abandoned. Otherwise, the TPM will continue for the full 5 years.

1/ Each trigger price has several elements, including a base price plus additional costs for ocean freight, handling at the U.S. port, and interest, all elements expressed in U.S. dollars per metric ton. These additional costs were differentiated on the basis of 4 U.S. regions having maritime ports--west coast, gulf coast, Atlantic coast, and Great Lakes. There are also extras for special characteristics regarding dimensions, chemical composition, and surface preparation. Each trigger price also includes a charge for insurance, equivalent to 1 percent of the sum of the base price, extras, and ocean freight. Trigger prices are based on the full costs of producing steel mill products in the most efficient foreign steel industry.

2/ The excluded products are organic-coated cold-rolled sheets from all countries; organic-coated galvanized sheets from all countries, special sections from all countries, light I-beams from Belgium, and all structural shapes from Italy.

Several administrative changes were made to the TPM system when it was reinstated. A surge provision was added to the TPM, allowing Commerce to investigate, upon request, surges in imports of specific steel products. If a surge occurs at a time when import penetration is greater than 13.7 percent, the department will examine TPM enforcement; if the surge is found when import penetration is greater than 15.2 percent, Commerce will determine whether the surge is the result of injurious dumping or subsidization. If such situations are found, Commerce may initiate a narrow, product-specific antidumping or countervailing duty case. Alternatively, the domestic industry may choose to bring such a case without risking suspension of the TPM. Commerce must complete trigger-price investigations within 90 days. No action will be taken in any case where a surge in imports appears to be the result of fair competition, and none of the surge procedures will be utilized at times when the domestic industry is operating at or above 87 percent capacity utilization.

Another substantive change was made in the method for reflecting movements in the yen/dollar exchange ratio. Trigger prices are now based on a 36 month moving average of the yen/dollar exchange rate instead of a 60-day average. This should prevent sharp changes in trigger prices caused by short term swings in exchange rates. The trigger prices put into effect on October 21 averaged approximately 12 percent higher than they were when the TPM was suspended in March. The increase was due entirely to increases in Japanese production costs and the strengthening of the yen relative to the dollar.

Administrative changes have been designed to improve the transparency and regularity of the application of the TPM, and enforcement of the TPM is to be upgraded. Also, Commerce will establish training programs for customs officers at major ports of entry for steel and will send teams to each major port on a spot check basis. In late October, Commerce announced its intention to expedite consideration of extending steel trigger prices to cover specialty steel, 1/ and delivered a preliminary report to the President on November 10, 1980. On January 8, 1981, Commerce announced that TPM coverage would not be broadened to cover specialty steel imports. However, specialty steel imports will be monitored for surges by Commerce. 2/

The Department of Commerce announced procedures under which certain foreign steel producers may sell steel mill products in the United States below trigger prices on November 21, 1980. The procedures permit exemptions from the trigger-price program for those foreign steel producers which can prove that their actual production and sales costs are at or below the trigger prices. Foreign producers may avoid an antidumping investigation by requesting preclearance under procedures outlined in the November 24 Federal Register.

1/ The OMA on specialty steel expired on Feb. 13, 1980.
2/ Commerce Press Release No. 81-03, Jan. 8, 1981.

Countervailing duty actions

United States countervailing duty legislation was originally enacted in 1897 and later embodied in section 303 of the Tariff Act of 1930. The legislation states that whenever a "bounty or grant" (subsidy) is paid in a foreign country upon the manufacture or production for export of a class or kind of merchandise, a countervailing duty equal to the net amount of the subsidy is to be levied upon the importation of such articles. The purpose of this provision is to offset any unfair competitive advantage that foreign manufacturers or exporters might gain over U.S. producers by reason of subsidized exports.

Title I of the Trade Agreements Act of 1979 modified existing countervailing duty laws in a number of important respects. In order to make conforming changes in domestic trade law, section 701 of the Tariff Act of 1930 adds a material injury test with regard to imports from countries which are signatories of the subsidies code 1/ negotiated under the aegis of the GATT. Section 303 is still applicable to countries that are not signatories of the subsidies code. Section 303 of the Tariff Act of 1930 operates without regard to any determination of material injury in any case in which imports of dutiable merchandise are subsidized. Furthermore, changes in the administration of the law, essentially the same as those applicable to antidumping cases, have been introduced. Provisional relief is available to domestic concerns for the first time, strict time limits have been introduced for the investigative phase, and an illustrative list of export subsidy practices is contained in the law. In addition, the Trade Agreements Act of 1979 established expanded authority to suspend investigations when early action by the foreign government or exporter will eliminate the unfair trade practice or its injurious effect. Pursuant to Presidential Reorganization Plan No. 3 of 1979, responsibility for administration of the statute was transferred from the Department of Treasury to the Department of Commerce, effective January 2, 1980.

During 1980, The Secretary of Commerce made the following final determinations on subsidies in countervailing duty cases:

Affirmative determinations 2/

Corn starch from Belgium, Denmark, France, Ireland, Italy, Luxembourg, the Netherlands, the United Kingdom, and West Germany
Industrial fasteners from India
Malleable pipe fittings from Japan
Weighing machinery and scales from Japan
Certain textiles and textile mill products from Pakistan
Fresh cut roses from Israel

1/ Subsidization was found.
2/ The Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade.

Negative determinations 1/

Wool tops from Australia
Certain textiles and textile mill products from India

At yearend, the following countervailing duty cases were pending at the Commerce Department:

Leather wearing apparel from Argentina, Mexico, Uruguay, and Colombia
Plastic animal identification tags from New Zealand

Countervailing duties were revoked on the following products during 1980:

Cheese from Austria
Iron and steel chains and parts thereof from Italy
Rubber footwear from the Republic of Korea
Leather handbags from Brazil
Certain steel products from Italy

Responsibility for determining injury under the countervailing duty statute rests with the U.S. International Trade Commission. Countervailing duty actions in calendar year 1980 are shown in table 21.

Unfair practices in import trade

Section 337 of the Tariff Act of 1930, as amended by the Trade Act of 1974, empowers the U.S. International Trade Commission to investigate and remedy unfair acts and methods of competition related to the entry and sale of imports into the United States. Such investigations may be initiated upon the receipt of a formal complaint or by the Commission itself. The act declares unlawful, practices whose effect or tendency is to (1) destroy or substantially injure an efficiently and economically run domestic industry, (2) prevent the establishment of such an industry, or (3) restrain or monopolize commerce in the United States. Section 337 cases generally involve patent infringement and antitrust issues; by far the most common are patent infringement cases.

If the Commission determines that a violation of section 337 has occurred, it may remedy the situation by issuing exclusion orders or cease and desist orders, unless, after considering the effect of such action on public health and welfare, competitive conditions in the U.S. economy, production of like or directly competitive articles in the United States, or domestic consumers, it finds that such action should not be taken.

Under the statute, the President has 60 days to expressly approve or disapprove, for policy reasons, the Commission's affirmative determination. In the event of the President's disapproval, the Commission's order has no force or effect. If the President takes no action, the Commission's decision enters into force 60 days after the Commission's determination. Individuals or firms adversely affected by either a negative or positive determination have the right to judicial review.

1/ Subsidization was not found.

Table 21.--Countervailing duty investigations completed by the Commission in 1980 or pending at yearend

Investigation No.	Article and country	Commission determination	Outcome
701-TA-1	Leather, cut or wholly or partly manufactured into forms or shapes suitable for conversion into footwear from India.	No injury	Case terminated.
701-TA-2	Pig iron from Brazil	Injury	Countervailing duties imposed on a case-by-case basis.
701-TA-3	Frozen potato products from Canada	No reasonable indication of injury	Case terminated.
701-TA-7	Weighing machinery and scales from Japan.	No injury	Case terminated.
701-TA-11 through 701-TA-19	Dextrines and soluble or chemically treated starches from Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.	No injury	Case terminated.
701-TA-20	Certain chains and parts thereof from Japan.	No reasonable indication of injury	
701-TA-21	Fresh cut roses from the Netherlands.	No reasonable indication of injury	Case terminated.
701-TA-22 through 701-TA-30	Dextrines and soluble or chemically treated starches derived from potato starch from Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.	No injury	Case terminated
701-TA-31 through 701-TA-39	Hams and pork shoulders, cooked and packed in airtight containers from Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Luxemburg, the Netherlands, and the United Kingdom.	No injury	Case terminated.
701-TA-40	Fish, fresh, chilled, or frozen whether or not whole, but not otherwise prepared or preserved from Canada.	No injury	Case terminated.

Table 21.--Countervailing duty investigations completed by the Commission in 1980 or pending at yearend--Continued

Investigation No.	Article and country	Commission determination	Outcome
701-TA-42 through 701-TA-50.	Tomatoes from Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Luxemburg the Netherlands, and the United Kingdom.	No injury	Case terminated.
701-TA-51	Butter cookies from Denmark	No injury	Case terminated.
701-TA-52 through 701-TA-60.	Certain nonquota cheese from Belgium, Denmark, the Federal Republic of Germany, France, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.	No injury	Case terminated.
701-TA-62 and 701-TA-63	Textiles and textile products of cotton from Pakistan.	No injury	Case terminated.
701-TA-68	Leather wearing apparel from Uruguay.	Reasonable indication of injury	
303-TA-13	Certain public works castings from India.	Injury	Countervailing duties imposed on a case-by-case basis.
303-TA-14	Plastic animal identification tags from New Zealand.	Reasonable indication of injury	

During 1980, the Commission worked on 22 such cases, completing 11 of them and continuing work on 11 at yearend. Of the 11 completed, the Commission decided affirmatively on 8 of them. The Commission may make a negative finding for one of several reasons: (1) the evidence did not uphold the allegations, (2) the complainant signed a consent order, 1/ (3) voluntary assurances of compliance were made, 2/ or (4) a settlement agreement was procured. 3/ The Commission did not find violation of the statute in three cases. The investigations completed by the Commission in 1980 are listed in table 22; those pending at yearend are listed in table 23.

Section 603 of the Trade Act of 1974, preliminary investigations

Section 603 of the Trade Act of 1974 states that "In order to expedite the performance of its functions under the Act, the International Trade Commission may conduct preliminary investigations, determine the scope and manner of its proceedings, and consolidate proceedings before it." This section has most frequently been utilized to conduct preliminary section 337investigations of unfair import practices. Such investigations are conducted in accordance with the Commission's Rules of Practices and Procedure. Changes in these rules were proposed on April 9, 1980 (45 F.R. 24192), in order to expedite the resolution of section 337 cases. These changes would furnish additional procedures for the termination of investigations under sections 337 and 603, and provide for consent orders and certain nonadjudicative proceedings, including enforcement of final Commission orders issued in accordance with the Commission jurisdiction under section 337. A public comment period followed the proposal. 4/ During 1980, the Commission conducted two cases under the authority of section 603, calcium pantothenate from Japan and steel jacks from Canada.

1/ A consent order contains no admission that the respondent has violated the statute, and is predicated on the parties consent to the imposition of a cease and desist order. After such motion, the Commission publishes a public notice and invites comments from the public. The Commission may chose to reject or accept the consent order on the basis of the public comments received and evidence provided by the parties to the investigation.
In agreeing to a consent order, the parties voluntarily waive their rights to a full adjudication of the case on the merits of the evidence.

2/ Voluntary assurances of compliance involve no recognition of violation, simply a promise not to violate sec. 337 in the future. Voluntary assurance of compliance may be secured at any time during the investigative process (before a final determination).

3/ Settlement agreements involve the offering of a joint motion by all the parties involved (including the investigative attorneys) recommending to the Commission that the case be terminated. After such motion, the Commission publishes a public notice and invites comments from the public. The Commission may chose to reject or accept the settlement agreement on the basis of the public comments received and evidence provided by the parties to the investigation.

4/ On Mar. 18,1981, final rules allowing for supplementary procedures in investigations of unfair practices in import trade were adopted.

Table 22.--Investigations under section 337 of the Tariff Act of 1930 completed by the Commission in 1980.

Investigation No.	Article	Commission determination or other action
337-TA-37	Certain skateboards and platforms therefor	Violation. 1/
337-TA-62	Certain rotary scraping tools	Violation. 1/
337-TA-66	Certain plastic-molding apparatus and components thereof	Terminated. 2/
337-TA-67	Certain inclined-field acceleration tubes and components thereof	Violation, No remedy. 3/
337-TA-68	Certain surveying devices	Violation. 1/
337-TA-69	Certain airtight cast-iron stoves	Violation. 1/
337-TA-71	Certain anaerobic impregnating compositions and components therefor	No Violation.
337-TA-74	Certain rotatable photograph and card display units, and components therefor	Violation. 1/
337-TA-82	Certain headboxes and papermaking machines	Violation. 1/
337-TA-85	Certain slide fastener stringers and machines and components thereof for producing such slide fastener stringers	No Violation.
337-TA-89	Certain apparatus for continuous production of copper rod	Violation. 4/

1/ Exclusion order issued.
2/ Settlement agreement signed.
3/ Public interest considerations precluded taking remedial action.
4/ Temporary relief granted, settlement agreement signed.

Table 23.--Investigations under section 337 of the Tariff Act of 1930 pending before the Commission at yearend 1980.

Investigation No. and initiation date	Article	Petioner	Final Commission decision due
337-TA-69 7/12/79.	Certain airtight cast iron stoves	Jotul, Inc. Kristia, Inc., Jotul Stove Dealers.	1/12/81.
337-TA-75 12/19/79.	Certain large video display systems and components thereof.	Steward Warner Corp.	7/19/81 (deemed more complicated 12/19/81.
337-TA-76 12/21/79.	Certain food slicers and components thereof	Prodyne Enterprises, Inc.	6/21/81 (deemed more complicated 6/17/80).
337-TA-77 1/30/80.	Certain farm feeding tractors and components thereof.	Precision Handling Devices, Inc.	1/30/81.
337-TA-78 2/27/80.	Certain poultry disk picking machines and components thereof.	Stork-Gamco, Inc.	2/27/81.
337-TA-79 2/27/80.	Certain cathode sputter coated glass transparencies.	PPG Industries, Inc.	2/27/81.
337-TA-81 4/2/80.	Certain hollow fiber artificial kidneys	Cordis-Dow Corp.	4/2/81.
337-TA-83 5/29/80.	Certain adjustable window shades and components thereof.	Newell Window Furnishings Co.	5/29/81.
337-TA-84 6/11/80.	Chloro-, fluoro-, and gydro- carbon drycleaning process machines and components thereof.	Research Development Corporation	6/11/81.
337-TA-86 6/25/80.	Certain shell brim hats	Zwicker Knitting Mills	6/25/81.
337-TA-87 6/25/80.	Certain coin-operated audio visual games and components thereof.	Midway Manufacturing	6/25/81.

The Commission instituted investigation No. 603-TA-5, calcium pantothenate from Japan, to examine the market for the article and to determine if charges by the Syntex Corp. of unfair import practices merited a full section 337 investigation. The Commission had previously voted not to institute a section 337 investigation on the basis of the allegations in the Syntex complaint. On August 8, the Commission determined, by a 5 to 0 vote, that no unfair methods of competition or unfair acts in the importation and sale of calcium pantothenate were occurring, and thus terminated investigation 603-TA-5.

In response to a complaint filed by the Bloomfield Manufacturing Co., the U.S. International Trade Commission instituted investigation No. 603-TA-6, Steel Jacks from Canada, to investigate whether such imports were the subject of a combination or conspiracy to fix prices at unfairly low levels for the purpose of restraining or monopolizing trade and commerce in the United States. Following this, the complainant and three companies which were named in the complaint as respondents--J.C. Hallman Manufacturing Co., American Gage and Manufacturing Co., and A.H. Bottoriff Co.--entered into a consent order agreement, thereby terminating the investigation. 1/

Certain practices of foreign governments and instrumentalities

Section 301 of the Trade Act of 1974 empowers the President to enforce U.S. rights under trade agreements and to counteract practices by foreign governments (or instrumentalities) which constitute an unjustifiable, unreasonable, or discriminatory burden, or otherwise restrict the commerce of the United States. Under the statute, the word "commerce" is meant to include services, such as shipping and insurance. In practice, section 301 is the primary statute which enables the President to deal with nontariff barriers to trade in invisibles, such as licensing requirements for service industries. The President is directed to take all appropriate and feasible steps to obtain the elimination of these trade practices. If all such attempts fail to end the practices, he may (1) deny the offending country or instrumentality the benefits of trade agreements concessions, (2) impose special import restrictions, and (3) impose fees or other restrictions on the services of the foreign country.

Petitions alleging actions falling under section 301 jurisdiction are filed with the United States Trade Representative. Investigation of the allegations is conducted by an interagency section 301 Committee, and may include hearings if that is requested. If the committee finds that the allegations are well founded, it may recommend that the United States Trade Representative conduct consultations with the foreign country. Where appropriate, the GATT and the MTN Code Committees can be used as a forum for settlement of such disputes.

1/ Notice of termination of the case was dated Dec. 5, 1980.

A summary of cases under section 301, Trade Act of 1974, completed, terminated, or pending at yearend 1980 follows:

I. Cases in which Presidential determinations have been made:

301-6, Wheat flour (EC)

Petition received: December 8, 1975.
The issue: EC payment of export subsidies to wheat millers.
Status: Bilateral consultations between the EC and the United States were conducted in 1977 and informal consultations continued during the MTN. No resolution to the problem was reached, and formal dispute settlement procedures under the GATT were initiated on July 24, 1980. On August 1, 1980, the President directed the United States Trade Representative to pursue these dispute settlement procedures diligently. GATT Article XXII consultations between the EC and the United States were conducted in October 1980. A technical meeting was scheduled for January 28, 1981, to evaluate price undercutting data and the extent of EC export subsidization practices.

301-13, Leather (Japan)

Petition received: August 4, 1977.
The issue: Japanese quantitative restrictions and excessive tariffs on leather imports.
Status: As a result of bilateral negotiations with Japan, an understanding between the governments which would expand the quota on imported leather was reached in February 1979. (The tariff rates on imports of leather were found to be reasonable because they were bound GATT rates.) The Interdepartmental Committee on Implementation of the Japan-U.S. Leather Agreement is monitoring Japanese adherence to the agreement. On July 31, 1980, the President issued a memorandum directing the United States Trade Representative to consult with Japan regarding the agreement, and to report to him on the progress of the consultations on February 1, 1981.

301-15, Income tax practices (Canada) 1/

Petition received: August 29, 1978.
The issue: Provisions of the Canadian Income Tax Act which deny income tax deductions to any Canadian taxpayer for advertising time purchased from a U.S. broadcaster for advertising directed at the Canadian market. Deductions are granted for such purchases from Canadian broadcasters.
Status: After bilateral consultations with the Canadian Government failed to produce agreement, the President sent a memorandum to the United States Trade Representative on July 31, 1980, informing him of his determination that the appropriate response to the Canadian practice would be to propose legislation to the Congress which, when enacted, would mirror the Canadian practice in U.S. law. The proposed legislation was sent to Congress on September 9, 1980.

1/ For additional discussion, see the Canada section of ch. IV of this report.

II. Cases terminated by the United States Trade Representative:

301-3, Egg albumen (EC)

Petition received: August 7, 1975.
The issue: Sudden changes made in supplementary levies charged by the EC on imports.
Status: Although the EC continued to use import charges on such imports (the EC discontinued the use of supplementary levies in 1976, and replaced them with import charges), the charges have not had a significant impact upon U.S. sales. Therefore, the case was terminated on July 21, 1980.

301-5, Malt (EC)

Petition received: November 13, 1975.
The issue: EC's subsidization of exports, to the detriment of U.S. exports to Japan and other countries.
Status: Since the Subsidies Code addresses the major issue raised in the petition, the United States Trade Representative, with the advice of the interagency 301 Committee and the agreement of the petitioner terminated the investigation on June 19, 1980.

301-7, Sugar in canned fruits and juices (EC)

Petition received: March 30, 1976.
The issue: EC changes in the amount of the variable levy which is assessed on sugars added to canned fruits and juices impairing the value of GATT bound tariff rates to the United States.
Status: As a result of MTN negotiations, the United States concluded an agreement with the EC on July 11, 1979, which changed the variable levy to a fixed 2-percent levy on added sugar. The case was therefore terminated on June 18, 1980.

301-16, Wheat (EC)

Petition received: November 2, 1978.
The issue: EC export subsidies enabling exports from the EC to displace U.S. exports in third country markets.
Status: Such subsidies are now under the purview of the GATT Subsidies Code, which became effective January 1, 1980. Representatives of the EC and the United States met in June 1980, and agreed to monitor developments, exchange information and discuss future problems which may arise in world wheat trade. In light of these developments, the investigation was terminated on July 24, 1980.

301-17, Cigars (Japan) 1/

Petition received: March 14, 1979.
The issue: Allegation that the Japanese Government's tobacco monopoly maintains unreasonable import restrictions, imposes internal taxes or charges on imports in excess of those placed on domestic products and imposes discriminatory restrictions on the marketing, advertising, and distribution of imported cigars.

1/ For additional discussion, see the Japan section of ch. IV of this report

Status: This case was combined with 301-19 for the purpose of dispute settlement procedures initiated by the United States in 1979. Japan amended its law to replace the internal tax on imported cigars with a 60 percent ad valorem import duty while the GATT panel was deliberating. Before the GATT panel report was issued, the two Governments reached an agreement under which Japan would reduce the import duty from 60 percent to 35 percent ad valorem and would liberalize restrictions on imported cigars. The case was terminated on January 6, 1981.

<u>301-18, Marine insurance (Argentina)</u>

Petition received: May 25, 1979.
The issue: Allegations that Argentine statutes require marine insurance on exports from and imports into Argentina to be placed with an Argentine insurance firm when the risk of loss is borne by an Argentine national.
Status: The United States Trade Representative suspended the case on July 25, 1980, upon receipt of a commitment from the Government of Argentina to participate in multilateral negotiations, conditioned upon participation by a substantial number of other developing countries, to achieve, among other things, the elimination of restrictive practices in the insurance sector.

<u>301-19, Pipe tobacco (Japan)</u> 1/

Petition received: October 22, 1979.
The issue: Allegation that the Japanese Government's tobacco monopoly maintained unreasonable pricing procedures and advertising and distribution restrictions on U.S. pipe tobacco.
Status: Tariffs reduced from 110 to 60 percent ad valorem, as a result of bilateral agreement (see 301-17). Case terminated January 1, 1981.

<u>301-20, Fire and marine insurance (Korea)</u>

Petition received: November 5, 1979.
The issue: Alleged failure of the Government of Korea to issue licenses to the petitioner to do business in the fields of fire and marine insurance markets.
Status: Bilateral consultations were conducted with the Government of Korea beginning in June 1980. During these negotiations, the Government of Korea informed the United States of its plan to open its insurance market to competition by permitting the petitioner to compete in the market, gradually removing restrictions on the market over a three and one-half year period, and eliminating the discriminatory nature of the Korean system. The case was terminated on December 19, 1980.

1/ For additional discussion, see the Japan section of ch. IV of this report.

301-21, Eyeglass frames (Switzerland)

Petition received: December 12, 1979.
The issue: Damage to sample eyeglass frames by Customs Service of Switzerland.
Status: Swiss officials contend that marking of gold content did not comply with Swiss law, which requires that items marked to indicate gold content vary from the content marked by no more than 3/1000 of a karat. As the Swiss standard is consistent with that of many countries, the U.S. standard has been amended to permit variances of 3/1000 of a karat, effective October 1, 1981. The case was terminated on December 1, 1980.

Dried prunes (Venezuela)

Petition received: February 25, 1980 (the petition was refiled on June 2, 1980).
The issue: Allegation that the increase in the ad valorem duty on dried prunes by the Government of Venezuela from 35 to 60 percent and the imposition of a surcharge on those same items is unreasonable and burdens or restricts U.S. commerce
Status: Consultations between the two Governments resulted in a decision by Venezuela that it would substantially reduce its import charges on dried prunes. The petition was withdrawn on July 16, 1980. On August 12, 1980, Venezuela reduced its ad valorem duty on dried prunes from 60 percent to 20 percent and reduced the surcharge from 7 to 5 Bolivars.

Rice (Japan) 1/

Petition received: April 4, 1980.
The issue: Allegation that the price support program for rice maintained by the Government of Japan is inconsistent with its obligations under the GATT Subsidies Code.
Status: Representatives of the United States and Japan reached an agreement on April 12, 1980, regarding the sales of Japanese surplus rice resulting from the price support system. On May 19, 1980, the Rice Miller's Association withdrew their petition, advising if the surplus rice was sold at below the world price it would refile its petition. As a result, the United States Trade Representative did not make a determination with respect to initiation of an investigation.

III. Cases which were pending at yearend, 1980:

301-11, Citrus products (EC)

Petitions received: November 12, 1976.
The issue: EC's preferential rates of duty on orange and grapefruit juices and other citrus products from certain Mediterranean countries.
Status: The United States and the EC have held consultations both during and after the MTN. As required by section 303 of the Trade Act of 1974,

the United States Trade Representative informed th EC and the GATT Secretariat that the U.S. wished to hold consultations under GATT Article XXII:1 and the Framework Agreement of the GATT. These consultations were held in October 1980. No agreement was reached. The United States Trade Representative, in consultation with the Department of Agriculture is analyzing the impact on U.S. interests of the preferences as a necessary precondition to taking the next step in dispute settlement.

301-14, Marine insurance (U.S.S.R.)

Petition received: November 10, 1977.

The issue: Allegation that the Soviet Union requires marine insurance on exports or imports between the United States and the U.S.S.R. be placed with a Soviet state insurance monopoly

Status: Bilateral negotiations concerning marine insurance resulted in a memorandum of understanding signed by both Governments on April 5, 1979. The case was suspended pending review in one year of the operation of the agreement. An interagency 301 committee was to monitor the agreement. However, a review of the operation of the first year of the agreement has not been possible in the current climate of U.S.-U.S.S.R. relations. On July 24, 1980, the United States Trade Representative announced the continued suspension of the case because of the inability to assess the operation of the understanding, to remain in effect until a thorough review and assessment can be conducted.

Section 22 of the Agricultural Adjustment Act, as Amended

Section 22 of the Agricultural Adjustment Act of 1933 allows the President to restrict the importation of agricultural commodities to prevent interference with price support programs operated by the U.S. Department of Agriculture. If the Secretary of Agriculture believes impairment to such programs is taking place or is imminent, he is directed to advise the President, who refers the matter to the U.S. International Trade Commission for investigation. On the basis of the Commission investigation and report, the President is authorized to regulate the importation of the products whose tendency or effect is to materially interfere with any domestic production and marketing control program, price support or other program in operation relating to agricultural commodities. Among the remedies available under the act are quantitative restrictions and additional import fees. If an emergency situation exists, the President may take immediate remedial action, pending the completion of the Commission's investigation. Under provisions in the act, the President may also direct the Commission to study the effect of suspending, terminating or modifying any such restriction previously imposed. Currently such restrictions are in place on sugar, dairy products, peanuts, cotton, and other products.

On March 5, 1955, the United States obtained a waiver of its articles II and XI obligations under the GATT for items covered by section 22 of the Agricultural Adjustment Act. The Contracting Parties stipulated that the United States must submit annual reports containing information on adjustment efforts and current and pending restrictions. On March 26, 1980, the GATT

Council approved a New Zealand request for the formation of a working party to review the U.S. GATT waiver. The working party met in October. The focus of the meeting was principally on U.S. dairy programs, with representatives of New Zealand, Australia, and Hungary expressing the opinion that the United States industry had not completely met its obligations to adjust. Such opinions were noted in the working parties report, which was subsequently approved. However, the GATT waiver continues in effect.

During 1980, the following products were subject to quotas under the authority of section 22:

- Condensed or evaporated milk
- Most cheeses made from cow's milk
- Butter and butter oil
- Powdered milk
- Frozen cream
- Ice cream
- Chocolate
- Certain articles containing malted milk and articles, n.s.p.f., of milk or cream
- Certain edible preparations containing butter fat
- Animal feeds containing milk and milk derivatives
- Peanuts, whether or not prepared or preserved, but not peanut butter
- Cotton, not carded, not combed, not otherwise processed, except harsh or rough cotton under 3/4 inch
- All spinnable cotton wastes
- All fibers of cotton, processed, but not spun

Peanuts.--During 1980, drought conditions reduced the peanut harvest by 42 percent resulting in a severe shortage of edible grade peanuts. In response to this, the United States Trade Representative, acting on authority delegated to him by the President, issued Presidential Proclamation 4807 on December 4, 1980, authorizing on an emergency basis the entry of an additional 200 million pounds (over the existing quota of 1,709,000 pounds) of such peanuts, through June 30, 1981, pending the report of the Commission on its investigation No. 22-42. It 1/ was undertaken to determine if the modification or suspension of the annual import quotas on peanuts for the 12-month period beginning August 1, 1980, would hamper existing Department of Agriculture programs and was pending final Commission determination at yearend 1980. 2/

1/ Investigation No. 22-42 was instituted on Oct. 15, 1980, following the receipt of a petition filed by the Peanut Butter and Nut Processors Association and the National Confectioners Association.

2/ On Jan. 15, 1981, the U.S. International Trade Commission unanimously determined that the peanut quota could be modified to permit the entry of an additional 200 million pounds of peanuts during the extended period of Aug. 1, 1980 to July 31, 1981, inclusive without rendering or tending to render ineffective or materially interfering with any program or operation undertaken by the Department of Agriculture with respect to peanuts, or reducing substantially the amount of any product processed in the United States from peanuts. Chairman Bill Alberger, Vice Chairman Michael Calhoun, and Commissioner Paula Stern further recommended that the quota be increased by 300 million pounds. On Apr. 14, 1981, the President raised the quota by an

Sugar.--On December 28, 1978, the President issued Proclamation No. 4631 which established, effective January 1979, a system of variable import fees for sugar imports. Managed by the Secretary of Agriculture, the system provides for quarterly adjustments of import fees to offset changes in the world price of sugar in order to assure that the U.S. domestic price (the world price plus U.S. import duties, fees, and c.i.f. costs) does not fall below its objective of 15 cents per pound. However, rising sugar prices reduced the import fee to zero on October 24, 1979, where it remained throughout 1980.

The specific duty on imports of refined sugar (which is imposed on top of the variable import fee) was reduced on February 1, 1980, from 1.985 cents per pound to 0.625 cents per pound in response to rising world market sugar prices. An aggregate quota of 6.9 million short tons raw value for sugars, syrups, and molasses 1/ for any calendar year was proclaimed by the President on November 30, 1978 (Proclamation No. 4610). In May of 1979, the Secretary of State was authorized by the President to allocate the sugar quota in conformity with provisions of the International Sugar Agreement (ISA). Congress passed legislation implementing the terms of the International Sugar Agreement with respect to the United States on April 2, 1980. Quota allocations for 1980 were announced in November of 1979 as follows: Taiwan, 105,522 short tons, raw value; all other nonmembers of the ISA, as a group, 93,816 short tons, raw value. However, on March 6, 1980, these quota allocations were suspended due to high prices. The annual quota of 6.9 million short tons remained in effect throughout 1980.

Upland cotton.--Although the section 22 quotas on cotton, cotton waste, and certain cotton products remained unchanged throughout the reporting period, two actions were taken under other legislative authority which were equivalent to temporary expansion of the import quotas for cotton. Acting under special provisions of the Agricultural Act of 1949, as amended by the Food and Agriculture Act of 1977, the President on March 31, 1980, proclaimed a new special import quota for upland cotton (of all applicable staple lengths) in the amount of 244,030,605 pounds. The larger quota was, in effect, a response to increased prices. The Agriculture Act states that a quota, equal to 21 days mill consumption, shall be placed into effect if average prices for a particular month exceed 130 percent of the average price for the preceding 36 months. The quota is to be extended in 90-day intervals, until prices drop below the trigger level. The March 31 quota was to remain in effect through July 2, 1980. It was subsequently continued for an additional 90 days --maintaining a situation in which, for all practical purposes, upland cotton imports were freely entered. On November 24, 1980, the President signed a proclamation increasing the quota for upland cotton by 497,154 bales. This quota was in addition to the normal annual upland cotton quota of 30,000 bales.

1/ TSUS Nos. 155.20 and 155.30

Cheese.--In line with the Tokyo round of trade negotiations, the United States enlarged some section 22 quotas on cheese and added several varieties to the products subject to quotas. The cheese quotas were expanded to cover approximately 85 percent of imports compared with the 50 percent of imports under quota prior to the Trade Agreements Act of 1979. The law allows the President to proclaim import quotas at an annual level up to 111,000 metric tons on cheese under the authority of section 22, without following the usual procedures of the section. The quota may not be increased above 111,000 tons except in accordance with provisions of section 22, and then only after a full independent investigation and report by the U.S. International Trade Commission, unless the Secretary of Agriculture determines that "extraordinary circumstances" prevail. These limitations on emergency action expire in January 1983.

In implementing the Tokyo round agreement, the U.S. import quota system was revised. The so-called price break system, under which swiss type and other cow's milk cheeses were subject to quota if imported at or below the break price but were free of quota controls if imported above that price, was terminated. In addition, soft-ripened cheeses were exempted from quota controls and remain quota free.

Chocolate crumb.--The Trade Agreements Act of 1979 also directed the President to enlarge quotas on chocolate crumb imports effective January 1, 1980. On that date, quotas of chocolate crumb were increased to an aggregate quota of 26,089,204 pounds from (21,680,000 pounds). Quotas were alloted to Australia and New Zealand for the first time.

The Meat Import Act of 1964

In order to protect domestic meat producers' share of the U.S. meat market, the Meat Import Act of 1964 provides that the aggregate imports of specified meats 1/ entered in any calendar year after 1964 should not exceed a base quantity which is adjusted annually to assure that imports do not exceed a 7 percent ratio to domestic commercial production. 2/

The Meat Import Act of 1979 amends the 1964 Act and became effective on January 1, 1981. The new legislation will allow for a countercyclical adjustment of the base level, raising the level of imports permitted when

1/ Fresh chilled and frozen cattle meat; meat of goats and sheep (except lamb); and prepared but not preserved beef and veal.

2/ About the same ratio to domestic commercial production as they did, on the average, in the years 1959-63 (7 percent).

domestic production declines and reducing it when production increases. 1/ The Meat Act of 1964 tended to exacerbate the cyclical extremes of production and prices of U.S. beef and veal. Limitations on imports will now vary inversely with U.S. production, helping to stabilize prices and production responses to them. Since the bulk of imported meat is of the kind used in producing manufactured meat products (generally of lower quality), the new Act will have a greater effect on retail prices of manufactured meats than on table cuts. The Act establishes a minimum permissable access level on imports, 1.25 billion pounds, and modifies the President's authority to increase or suspend the quotas if the countercyclical fraction has a quotient of less than 1. In this case, the President may only suspend quotas if a national emergency exists requiring their suspension for security reasons, or if a natural disaster, disease, or major market disruption upsets domestic supplies. The Act broadened the product coverage of the Meat Import Act of 1964 to include prepared or preserved meats and fresh, chilled, or frozen lamb meat.

As part of the Tokyo round of multilateral trade negotiations, the United States committed itself to a minimum global access level of 1.2 billion pounds of meat annually and agreed to take into account the market position of traditional suppliers during a representative period when allocating quotas. Any allocation to new entrants will be subject to consultation with traditional suppliers. These provisions were incorporated into domestic trade law via the Trade Agreements Act of 1979.

Title VII also makes certain conforming changes in the 1964 meat import law to reflect changes in tariff classification made in title V of the Trade Agreements Act of 1979. These changes implement agreements negotiated with Australia, New Zealand, Canada, and Haiti.

During 1980, the Meat Import Act of 1964 was still in effect. However, imports were substantially below both the adjusted base for the year, 1.5 billion pounds, and trigger levels, 1.7 billion pounds. Therefore, no quotas were imposed on the covered categories of meats during 1980. Drought conditions in Australia contributed to the decrease in imports during 1980; actual imports of meats controlled by the act were 1.4 billion pounds, distributed by source as follows:

1/ The new law establishes a base quota of 1,204.6 million pounds, equivalent to the average annual imports of meat subject to quota during 1968-77. For any calendar year after 1980, the annual import quota shall be the base quota multiplied by the product of two fractions. The numerator of the first fraction is the 3-year moving average of domestic production of specified meat articles. The denominator is the average annual production of such meat in 1968-77. The second of the 2 fractions is countercyclical. The numerator of the second fraction is a 5-year moving average of per capita domestic production of cow beef. The denominator is the 2-year moving average of per capita domestic production of cow beef.

	Quantity (million pounds)
Australia------------	806.0
New Zealand----------	328.0
Canada---------------	92.7
Honduras-------------	63.9
Nicaragua------------	46.7
Costa Rica-----------	45.3
Guatemala------------	18.0
European Community---	9.7
El Salvador----------	4.4
Panama---------------	2.7
Dominican Republic---	2.4
Haiti----------------	1.5
Belize---------------	.3
Mexico---------------	.2
Total	1,422.0

In December 1980, President Carter announced his intention to suspend the 1981 quota on meat imports and gave the necessary 30-day notice, allowing for public comment. No action was necessary, however, as imports of the covered categories of meats were projected by the U.S. Department of Agriculture to be below trigger levels for the first two quarters of 1981. Therefore, no import quotas were imposed under the authority of the act by December 31, 1980.

U.S. actions on petroleum imports in connection with national security

Section 232 of the Trade Expansion Act of 1962, as amended, empowers the President to adjust imports of any commodity if the national security is threatened. The responsibility for investigating and reporting on such imports was vested in the Secretary of the Treasury from 1975 to 1979, and was transferred to the Secretary of Commerce in 1980.

If the Secretary of Commerce finds that certain imports are entering the country in such quantities and under such circumstances as to threaten to impair national security, he is required to so advise the President, who may then act to control such articles and their derivatives. Within 60 days of taking such action, the President must report to the Congress, noting the action taken and underlying reasons for it.

Under the auspices of the act, the Secretary of the Treasury embarked on a study of the implications of U.S. petroleum 1/ requirements from foreign sources and subject to interruption for a variety of reasons. The Secretary's March 14, 1979, report to the President concluded that increasing dependence on oil was a serious and continuing threat to the national security. The report suggested measures to cut imports in order to reduce such dependence. At the time, an interagency task force was studying overall U.S. energy

1/ Crude oil, crude oil derivatives and products and related products derived from natural gas and coal.

problems and recommended actions to limit U.S. petroleum consumption. President Carter announced in August 1979 that U.S. imports of oil would be limited to an annual average of 8.2 million barrels a day (Presidential Proclamation No. 3279). Oil imports have been below that level since the announcement, largely due to conservation measures.

Following the seizure of the U.S. Embassy compound in Tehran, President Carter embargoed imports of Iranian oil by Proclamation No. 4702. No imports of Iranian oil entered the U.S. market during calendar year 1980. As of January 19, 1981 (the day the hostages arrived in West Germany), the embargo on petroleum imports was officially lifted.

During March 1980, the President announced his intention to invoke section 232 for the purpose of reducing oil imports to expedite conservation measures. The method to be employed was the so-called Petroleum Import Adjustment Program which, in essence, subjected oil entering the United States to a surcharge of 10-cents a gallon. The fee, outlined in Proclamation No. 4744 of April 2, 1980, was to be passed on to consumers beginning on May 15, 1980. The President referred to the March 1979 report by the Secretary of the Treasury, noting that, in the report "the Secretary of Energy and the Secretary of Treasury have advised that I take action to reduce oil imports by imposing a fee on imports of crude oil and gasoline . . . ."

The conservation fee was never imposed, however. Federal District Judge Aubrey E. Robinson ruled the President had exceeded his authority and overturned the levy on May 13, 1980. Congress subsequently denounced the President's proposed action by passage of a resolution attached to a House bill (H.R. 7428) to that effect, thereby nullifying the President's action. President Carter vetoed the legislation, but his veto was overriden the same day by a 335-34 vote. While explicit congressional approval of Presidential actions under section 232 is not required, formal disapproval of the measure effectively kills it. 1/

The Energy Security Act, passed in August 1980, mandated that the strategic petroleum reserve be filled at a minimum rate of 100,000 barrels a day. As a result, the strategic petroleum reserve has begun storage of petroleum supplies to meet national security needs and to mitigate supply shocks. 2/

In response to the Iran-Iraq War, the International Energy Agency, composed of all OECD members except France, Iceland, and Finland, resolved at its 1980 ministerial meetings that all participants would lower consumption by 10 percent and to maintain adequate oil supplies by drawing from their oil stockpiles in order to reduce upward pressure on oil prices.

1/ Subsection 1862, ch. 7, (c), (1), Trade Expansion Act of 1962.

2/ The strategic petroleum reserve was begun in July 1977. The rate at which it is filled varies according to market conditions and tanker schedules.

The United States-Canada Automotive Agreement

For the past 15 years, the U.S. and Canadian auto industries have been serving a highly integrated market as a result of a bilateral arrangement that removed duties on trade of specified motor vehicles and original-equipment automotive parts. The agreement concerning automotive products, signed by the United States and Canada in 1964, was designed to expand the market for automotive products so that the full benefit of specialization and large scale production could be realized. Such benefits were to be achieved through the liberalization of tariff barriers and the rationalization of investment, production, and trade patterns between the two countries. The agreement operates in perpetuity; however, each government has the right to terminate the agreement by giving a year's notice.

Embodied in domestic trade law as the Automotive Products Trade Act of 1965, the Agreement provides for duty-free treatment of specified Canadian automotive products. In the act, the President is directed to review developments in the automotive market on an annual basis and to report his findings to the Congress. To implement the act, the United States had to obtain a waiver of its international trade commitment to most-favored-nation (MFN) tariff treatment under article I of the GATT. The GATT approved the waiver request in December 1965. Canada implemented its side of the agreement differently, according duty-free treatment to specified automotive products on a MFN basis to all manufacturers with production facilities in Canada at the time the Agreement was negotiated. Therefore, Canada did not consider it necessary to obtain a GATT waiver.

Prior to the Agreement, the Canadian industry operated inefficiently and at high cost, supplying a small domestic market behind a high tariff wall. Because of its relatively weak position, Canada sought to add more restrictive measures to the Agreement that could help its industry adjust to increased competition. The restrictions are set forth in Annex A of the Agreement and provide that (1) only bona fide Canadian vehicle manufacturers may import automotive products duty free; and (2) in order to be considered "bona fide," manufacturers must meet certain minimum Canadian value-added and production-to-sales ratio requirements. In addition, the Canadian Government procured Letters of Understanding from motor-vehicle manufacturers committing them to increase the Canadian-made share. These provisions have at times been a source of tension during the arrangement's history.

Over the past 15 years, the pact has proved a great stimulus to auto trade between the two countries. Total trade over the period 1964-80 has risen markedly, increasing from $716 million in 1964 to $19.4 billion in 1980 (table 24) 1/. While the United States has generally enjoyed a trade

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1/ As a result of a joint U.S.-Canadian study of overall automotive trade statistics (The Reconciliation of U.S.-Canada Trade Statistics 1970 published jointly by the U.S. Department of Commerce and Statistics Canada), it was agreed that each country should use its own import statistics to report imports and the other's import statistics to report exports. The resulting "import/import" method of quantifying automotive trade is used in the tables that follow.

Table 24.--U.S.-Canadian automotive trade, 1964-80

(In millions of U.S. dollars)

Year	U.S. imports	Canadian imports	Canadian imports less U.S. imports
1964	76	640	563
1965	231	889	658
1966	819	1,375	556
1967	1,406	1,889	485
1968	2,274	2,634	360
1969	3,061	3,144	85
1970	3,132	2,935	-196
1971	4,000	3,803	-197
1972	4,595	4,496	-99
1973	5,301	5,726	426
1974	5,544	6,777	1,233
1975	5,801	7,643	1,842
1976	7,989	9,005	1,016
1977	9,267	10,290	1,063
1978	10,493	10,964	471
1979	9,715	12,274	2,559
1980	8,800	10,552	1,753

Source: U.S. Department of Commerce.

Note.--Data exclude trade in materials for use in the manufacture of automotive parts and are adjusted to reflect transaction values for vehicles.

surplus, the value of Canadian shipments to the U.S. market has risen in tandem with U.S. exports. The value of U.S. exports to Canada reached record highs during 1979, but in 1980 declined to just above the 1978 levels.

Reflecting the slump in automotive sales during 1980, total two-way trade decreased 12 percent, from $22 billion in 1979 to $19 billion in 1980. While the U.S. automotive trade balance with Canada still amounted to a substantial surplus, at $1.8 billion, it declined nearly 32 percent from record 1979 levels. U.S. exports to Canada dropped 14 percent from what they were in 1979. Passenger car and parts and accessories exports each dropped 8 percent and exports of trucks, buses and chassis were down nearly 37 percent from what they were in 1979 (table 25). Imports from Canada showed a similar decline, down 9.4 percent from what they were in 1979. Nearly all of the drop was accounted for by the parts and accessories sector; imports of these were down 24.1 percent in 1980. A slight decline in Canadian exports of trucks, buses and chassis, 4.3 percent, was countered by a very slight rise in passenger car exports, 2.6 percent.

Low automobile sales in the North American market in 1980 hit the Canadian manufacturers especially hard, as Canadian auto-related production tends to be concentrated on larger, less efficient models. This concentration has stemmed in part from Canadian value-added requirements, which may have unintentionally encouraged manufacturers to emphasize production of larger cars with higher sticker prices. The near doubling of oil prices in 1979 had a disastrous impact on sales of these cars in the U.S.-Canadian market during 1980.

The Generalized System of Preferences

Overview

On January 2, 1976, the United States implemented a system of tariff preferences that favors developing countries. Eighteen other industrialized countries had already adopted similar preference schemes. Called the Generalized System of Preferences (GSP), this program is part of a coordinated effort by industrialized countries to bring developing countries more fully into the world trading system. By encouraging diversity in developing countries production and exports, it is expected that the GSP will make products from developing countries more competitive in world trade over the long run. This should decrease the need of developing countries for external assistance, and expand market opportunities for all nations.

The U.S. scheme was established under the Trade Act of 1974 for a period of 10 years after the date of enactment of that act. It authorizes the President to grant duty-free entry of imports of many products from most developing countries, 1/ up to specified dollar and market share limits. The program's current authorization extends until January 4, 1985.

1/ The President is authorized to designate a country as a GSP beneficiary based on the criteria set forth in section 502 of the Trade Act of 1974.

Table 25.--U.S.-Canada trade in automotive products, 1980 and 1979

(In millions of U.S. dollars)

Item	1980	1979
U.S. automotive imports from Canada: 1/		
Duty free: 2/		
Passenger cars	3,775.8	3,693.9
Trucks, buses and chassis	1,870.8	1,959.0
Parts and accessories	2,589.3	3,476.1
Total, duty free	8,235.9	9,129.0
Dutiable:		
Passenger cars	25.9	13.0
Trucks, buses and chassis	22.2	18.6
Parts and accessories	319.4	355.2
Tires and tubes	196.3	199.5
Total, dutiable	563.8	586.3
Total:		
Passenger cars	3,801.7	3,706.9
Trucks, buses and chassis	1,893.0	1,977.6
Parts and accessories	2,908.7	3,831.3
Tires and tubes	196.3	199.5
Total, U.S. Imports	8,799.7	9,715.3
Canadian automotive imports from the United States: 3/		
Duty free: 2/		
Passenger cars	2,889.6	3,140.0
Trucks buses and chassis	974.9	1,546.7
Parts and accessories	6,189.2	6,874.1
Total, duty free	10,053.7	11,560.8
Dutiable:		
Passengers cars	16.0	6.7
Trucks, buses and chassis	69.1	107.7
Parts and accessories	399.1	470.3
Tires and tubes	124.5	128.4
Total dutiable	608.7	713.1
Total:		
Passengers cars	2,905.6	3,146.7
Trucks, buses and chassis	1,044.0	1,654.4
Parts and accessories	6,478.3	7,344.3
Tires and tubes	124.5	128.4
Total, Canadian imports	10,552.4	12,273.8
U.S. trade balance	1,752.7	2,558.5

1/ U.S. import data

2/ Duty free under the United States-Canada Automotive Products Trade Act of 1965.

3/ Canadian import data converted to U.S. dollars as follows: 1980: Canadian $1.00 = U.S. $0.83560; 1979: Canadian $1.00 = U.S. $0.85471.

Source: U.S. Bureau of the Census, Statistic Canada.

Note.--U.S. imports are f.a.s. or transaction values as published by the Bureau of the Census. Canadian automotive imports are valued on a similar

UNCTAD's role.--The first formal proposal of a preferential tariff scheme (GSP) was made by Raul Prebisch in his keynote report to the first United Nations Conference on Trade and Development (UNCTAD), held in Geneva in 1964. Citing a trade gap resulting from the slow growth of primary exports from developing countries and the rapid growth of demand for manufactured goods by industrialized nations, Prebish proposed that exports from developing countries be granted temporary duty-free entry into all developed country markets. By doing so, the economic wealth of the developing countries could be increased through trade rather than through foreign aid.

The form, content, and substance of donor-country GSP programs were actively discussed in the OECD and in UNCTAD's Special Committee on Preferences through the fall of 1970. On October 13, 1970, draft proposals on the bases for implementing national GSP programs were accepted by UNCTAD's Trade and Development Board.

Relation to the GATT.--A temporary waiver of donor-country obligations under article I (MFN clause) of the GATT was necessary for the implementation of the GSP programs. The temporary waiver was granted in June 1971. During the Tokyo round, a permanent waiver, the so-called enabling clause, was granted, which lets Contracting Parties to the GATT extend tariff preferences on imports from developing countries and give special treatment to developing countries on nontariff issues governed by codes negotiated under GATT auspices. This clause broadens and makes permanent the 1971 waiver obtained by Contracting Parties that had already adopted GSP schemes. GSP benefits are nonreciprocal and not bound in the GATT. Therefore, beneficiaries are not entitled to compensation should GSP treatment be changed or ended.

The schemes compared.--Eleven GSP schemes involving 19 industrial countries 1/ are currently in operation. Nearly 90 percent of the total GSP duty-free imports of preference-giving countries are accounted for by the GSP programs of the EC, Japan, Canada, and the United States. In general, the GSP schemes are similar in terms of product coverage and the list of developing countries eligible to receive benefits. All of the schemes include safeguard limitations to protect sensitive domestic industries from damaging imports. The EC plan, which went into effect in 1971, is generally considered to have the broadest product coverage, although it generally does not provide for duty-free treatment. 2/ In most schemes, industrial goods are accorded the most preferential tariff treatment while agricultural items are subject to slightly higher tariffs. The main exceptions are textiles, leather products, petroleum, and steel, which are considered sensitive sectors in most countries. Under the Japanese and European programs, GSP imports are subject to quotas, which take into account the sensitivity of the domestic industry

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1/ The European Community operates under one scheme, all other preference-giving countries have their own individual schemes, with various administrative and other rules.

2/ The U.S. scheme is the only one which grants a complete exemption from tariffs on all eligible items. Other schemes have reduced tariffs, with a few selected products accorded duty-free treatment.

involved. The quotas are both country specific and global. Because the quota levels are generally far below traditional import levels, and because they are allocated according to fixed percentage shares, they are often filled early in the year. After they are filled, the higher MFN duties are levied on the products. The EC added provisions to its GSP program in 1979 exempting the least developed developing countries (LDDC's) 1/ from tariffs and quotas on all items except six categories of agricultural products. 2/ 3/ Japan sets import ceilings on imports from all GSP countries combined for industrial categories (or product groups). Once the ceiling is reached, GSP treatment is suspended on all imports under the product group from all countries. Japan's imports from GSP beneficiaries are often higher than its GSP ceilings.

The United States' GSP scheme

In the U.S. version, authorized in the Trade Act of 1974, eligible countries and products are specified. A wide array of items are eligible for the U.S. GSP program, ranging from sugar to furniture and from copper to dictaphones. Eligible articles imported from eligible countries are given blanket duty-free tariff treatment, except where "competitive need" provisions apply (see the following section). Duty free imports under GSP from the 140 eligible countries and territories amounted to over $7 billion in 1980.

Beneficiary countries.--Countries are designated as eligible for GSP in accordance with the criteria outlined in section 502 (as amended) of the Trade

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1/ Generally, those countries whose per capita GNP is under $500. Under the U.S. scheme the countries eligible for treatment as LDDC's must satisfy two criteria pursuant to sec. 503(a)(2)(A) of the Trade Agreements Act of 1979: (1) a country must be both a designated beneficiary country for GSP purposes and (2) listed on the United Nations' General Assembly list of "Least Developed Countries." As noted in the Tariff Schedules of the United States 3(d), the countries designated as LDDC's are: Bangladesh, Benin, Bhutan, Botswana, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Gambia, Guinea, Haiti, Lesotho, Malawi, Maldives, Mali, Nepal, Niger, Rwanda, Somalia, Sudan, Tanzania, Uganda, Upper Volta, Western Samoa, Yemen(Sana).

2/ In accordance with sec. 503(a) of the Trade Agreements Act of 1979, products of the LDDC's imported into the United States are eligible for full MTN tariff reductions, without staging, on specified items as of Jan. 1, 1980.

3/ Effective Jan. 1, 1981, the European Community made changes to its program in an effort to remove the most industrialized LDC countries from GSP eligibility. The countries most affected by these changes are Brazil, Korea and Hong Kong. Taiwan was never a GSP beneficiary under the European scheme.

Act of 1974. Unless specifically excluded by this section, 1/ the President may designate a country as a beneficiary after taking into account the following four factors: (1) a request by a country to be considered a beneficiary; (2) its level of development; (3) preferential treatment extended by other major developed countries; and (4) the extent to which a country has provided assurances that the United States will have fair and reasonable access to its markets and basic commodities. The President is required to notify Congress of any proposed changes in the list of GSP beneficiaries. The extension of GSP treatment to members of the Organization of Petroleum Exporting Countries was prohibited under the Trade Act of 1974. 2/ However, the President was authorized to exempt any OPEC member from this prohibition by the Trade Agreements Act of 1979 if the country entered into a bilateral product-specific agreement with the United States before January 3, 1980. Three countries that did not participate in the oil embargo of 1973-74 Indonesia, Venezuela, and Ecuador were designated as GSP beneficiary countries under this exemption, effective March 30, 1980. The President is directed to end this exemption if a country interrupts or blocks delivery of petroleum or petroleum products to the United States. 3/

Ethiopia was removed from the list of GSP beneficiaries, effective March 30, 1980, because it did not ensure equitable compensation for U.S. citizens and businesses following the nationalization of property in 1979. As a result of the Soviet invasion of Afghanistan, the President withdrew Afghanistan from the list of eligible countries, effective May 1980.

1/ Section 502(b)(19 U.S.C. 2462 (b)) excludes from GSP eligibility the following categories of developing countries:

(1) communist countries, unless they receive MFN treatment from the United States, are members of the International Monetary Fund and the General Agreement on Tariffs and Trade, and are not dominated by international communism;

(2) OPEC countries and other countries withholding supplies of vital resources from the international market or causing international market disruption by their pricing policies of such resources (unless they entered into a bilateral product-specific agreement with the United States before Jan. 3, 1980);

(3) Countries granting reverse preferences which have a significant adverse impact on U.S. commerce;

(4) countries expropriating U.S. property without compensation or without entering into negotiation or arbitration;

(5) countries which do not act to prevent the importation of narcotics and other controlled substances into the United States;

(6) countries which fail to recognize or enforce arbitral awards in favor of U.S. citizens, corporations, partnerships or associations.

In addition, on Oct. 4, 1976, an amendment to title V of the Trade Act of 1974 was signed into law providing that the President shall exclude from GSP eligibility any country which aids or abets terrorism by granting sanctuary from prosecution to any individual or group which has committed an act of terrorism.

In total, 26 countries were expressly excluded.

2/ Petroleum is not on the list of items eligible for GSP duty-free treatment.

3/ Sec. 1111(a)(2)(B) of the Trade Agreements Act of 1979.

GSP eligible items.--The President is required to consider the potential effects on U.S. consumers and producers in designating GSP items. By law, the President must not grant GSP product eligibility in cases where domestic interests may be injured. 1/ 2/

Furthermore, a product from an individual country or association of countries may be eligible for GSP treatment, only if it: (1) meets a "rule-of-origin" requirement that it is imported directly from a beneficiary country into the customs territory of the United States, and (2) meets a value-added criterion specifying a minimum percentage of the total cost of production that must be performed in the beneficiary country or customs territory (35 percent for countries and approved associations of countries).

The Trade Agreements Act of 1979 amended the GSP origin and value-added provisions to avoid penalizing regional economic integration efforts among developing countries. These amendments liberalize the criteria under which associations of developing countries are eligible for GSP treatment. Approved associations are treated as a single country for GSP purposes. They must meet the same 35 percent value-added requirement as for individual nations. (Nonapproved associations must meet a 50-percent value-added criterion). Under this provision, the Andean Group and the Association of Southeast Asian Nations (ASEAN) have been recognized for the purposes of so-called cumulative treatment effective March 31, 1981. In addition, the competitive-need tests will be applied to imports from individual countries within the association, rather than to imports from the association as a whole.

Competitive-need and market share limits.--There are two features of the U.S. GSP which ensure that preferential treatment is reserved for beneficiary countries that are not already competitive in specific products, and which offer an additional measure of protection for domestic producers. These competitive-need limitations provide that imports of an eligible product from a particular beneficiary country will not receive duty-free treatment for the following year: (1) if their share of total U.S. imports exceed 50 percent in the current year for that product, or (2) if the value of U.S. imports from that country in that product exceeded the value limit in the GSP current calendar year. 3/ The value limit, originally $25 million, is adjusted annually in proportion to the U.S. GNP. For 1980, the ceiling was$45.8 million. 4/ Beginning with 1980, determinations in competitive-need exclusions are made within 90 days of the close of a calendar year and take effect for a 12-month period starting April 1.

1/ Articles subject to import relief or national security relief actions are also excluded (sec. 504, of the Trade Act of 1974).

2/ The Trade Act of 1974 excludes certain import sensitive items from GSP duty-free treatment: textile and apparel articles which are subject to textile agreements; watches; import sensitive electronic articles; import sensitive steel articles; specified footwear articles; import sensitive semimanufactured and manufactured glass products; and any other articles the President determines to be import sensitive in the context of the Generalized System of Preferences. (Public Law 93-618, 19 U.S.C. 2461).

3/ Competitive-need limits do not apply in cases where a like or directly competitive product is not produced in the United States.

4/ A *de minimus* provision that was added in the Trade Agreements Act of 1979 gives the President the authority to waive the 50-percent import limitation if the value of total U.S. imports of an article during a year did not exceed $1 million. This minimum value limit is also adjusted annually

A country that was removed from GSP eligibility for a particular product because of competitive-need limits may be redesignated during another GSP year if imports in the previous year do not exceed competitive-need limits.

The annual review process.--The interagency Trade Policy Staff Committee (TPSC) conducts an annual review of the GSP program, where any interested party may petition for product additions, deletions, or other modifications to the GSP program. The review begins in June with the acceptance by the TPSC of petitions requesting GSP changes, and concludes the following March with the issuing of an Executive order implementing any changes to be made to the program for the GSP year starting April 1. 1/ Public hearings by the TPSC on the requested changes are held in the fall. The petitions are evaluated on the basis of the following factors: the competitive position of beneficiary countries in the products concerned, current import levels, domestic production projections, general economic conditions of the U.S. industry, and the anticipated economic development benefits GSP designation of a product would provide to beneficiaries. New items may be added to the list of items eligible for GSP after the President (through the USTR) receives advice from the U.S. International Trade Commission on the probable economic effect of such additions on domestic concerns. The Commission has at times also been requested to advise the USTR on the effects of the removal of items from the list of eligible articles.

Five-year review of the program.--The President was directed in the Trade Act of 1974 to report to the Congress on the first 5 years' operation of the GSP program. As part of the President's 5 year review of the program, public hearings were conducted during 1980 which allowed for comment from all interested parties. Whereas virtually all witnesses endorsed the concept of a preferential tariff scheme, dissatisfaction with the program was expressed on the grounds that it failed to "graduate" 2/ its most advanced recipients. For example, attention was focused on statistics that showed that the top five GSP recipients--Taiwan, Korea, Hong Kong, Mexico, and Brazil--receive the lion's share of the program's benefits: 79 percent of GSP duty-free imports in 1980.

The President's Report to the Congress on the First Five Years' Operation of the U.S. Generalized System of Preferences acknowledged that GSP benefits had thus far been skewed in favor of advanced developing countries. 3/ In 1980, the greatest share of GSP benefits went to newly industrialized countries in Asia. The report further noted the LDDC's view that the program

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1/ The competitive-need changes cited earlier are included in this Executive order.

2/ "Graduation" here refers to the discretionary removal of a country's GSP eligibility in certain items, beyond the statutory market share and value tests required by the competitive-need formula. The principle of graduation refers to the phasing out and ultimate elimination of the preferential treatment in trade that the more economically advanced developing countries now receive. Further, they are expected to realign their own trade policies to be in harmony with the generally applicable rules of the world trading system (i.e. as outlined in the General Agreement on Tariffs and Trade.)

3/ Advanced GSP beneficiaries are those developing countries having 1979 per capita GNP of $1,405 or more.

was of marginal importance to their overall trade and investment plans. 1/ As noted in the report, the temporary nature of the preference, its relatively small margin, 2/ and the long leadtimes required for capital investment projects limit the prospect of widespread benefit to all developing countries. In response to these concerns, the report outlined the President's intention (1) to expedite graduation to developed country status of specific countries for trade in products in which they were considered to be already competitive, (2) to include items of particular relevance to the least developed countries, 3/ such as traditional handicraft items, and (3) to make administrative improvements, such as the creation of a GSP information center located in the office of the United States Trade Representative. The President outlined his graduation policy for the first time. These changes were to be implemented for the 1980 product review.

Graduation.--In the report, the President formalized the policy of graduation--using his discretionary authority to phase out preferential treatment for the most advanced GSP beneficiaries. The President may graduate a country from eligibility in a product under the general authority "to withdraw, suspend or limit duty free treatment" given him in section 504(a) and (b) of the Trade Act of 1974. Graduation will be implemented on a item-by-item basis. In practice, the President may graduate a country by (1) adding an item to the list of products eligible for GSP benefits for all countries except for the leading LDC supplier, even though that country's imports are below the competitive-need ceilings; (2) removing a country from GSP eligibility for a specific product where that country has demonstrated its competitiveness in the U.S. market without exceeding the competitive-need limits; or (3) by not redesignating countries currently denied GSP benefits, for specific products due to competitive-need reasons, when country imports fall below the designated limits. In making decisions on graduation the President will consider the general level of the country's economic development, the country's balance-of-payments position, and the overall economic interests of the United States.

1/ As noted in the President's Report, the distribution of benefits was expected. The list of items eligible for GSP excludes many labor-intensive, potentially sensitive industries such as textiles and footwear, and focuses primarily on semimanufactures and manufactures. These labor-intensive industries are often the stepping stones used by the LDDC's to reach their economic development goals. Currently, manufactured products make up 90 percent of products covered by the U.S. GSP program. This composition was based on the notion that a generalized tariff preference system should encourage the diversification of the developing countries' economic structures, fostering the growth of new, nonprimary industries. Not surprisingly, the most advanced of the developing countries had sufficiently sophisticated infrastructure and technology to take advantage of the program.

2/ Most of the items eligible for GSP were included in the MTN tariff reductions, which generally will be phased in over a 7-year period begun in 1980. Thus, the margins of tariff preference afforded by the duty-free tariff treatment for GSP imports will decline accordingly for the remainder of the program. Moreover, most GSP items are considered nonsensitive, so the MFN duty rates are lower than those for sensitive items. In the President's 5-year report, the average rate of duty on items eligible for GSP treatment was 9 percent, and will be reduced to 4.5 percent by 1987.

Following the President's report, the Congress conducted hearings to review the GSP program. Essentially the same concerns regarding graduation and the alleged adverse impact of GSP advantages on domestic industries were expressed at these hearings as had been voiced at the earlier Administration hearing. 1/ Again, most witnesses supported the concept of GSP. Bills proposing changes in the scope of the program, including more stringent competitive-need exclusions and further requirements for investigation of potential injury to domestic industry were introduced in the Senate.

U.S. International Trade Commission actions during 1980.--As part of the 1979 annual product review process, the Commission completed its analysis of the probable economic effect of adding articles to the list of items eligible for GSP treatment in February 1980. During 1980 the Commission also conducted four other separate GSP investigations.

At the request of the USTR, the Commission instituted investigations Nos. TA-131-(B)-5; TA-503(A)-7; TA-332-113 on the probable economic effects of possible tariff concessions, using the residual negotiating authority granted to the President in section 124 of the Trade Act of 1974, 2/ on U.S. industries and on consumers. The Commission also considered how making some of these articles eligible for GSP duty-free treatment would affect consumers and businesses. The Commission conducted hearings in connection with this investigation during November 1980, with the final report scheduled to be submitted to the USTR in February 1981.

In October 1980 the USTR submitted to the Commission a list of items which were requested in the 1980 GSP review to be considered for GSP eligibility by interested parties through the petition process. The Commission conducted hearings on the probable economic effect of making these items eligible for GSP treatment and was scheduled to submit its advice to the USTR in February 1981.

In November 1980, the Senate Finance Committee requested the Commission to conduct a section 332 fact-finding investigation on the economic impact of subdividing TSUS item 740.10, jewelry, into five distinct five digit TSUS item numbers for the purpose of GSP treatment. The Commission's report on the subdivision, investigation No. 332-122, indicated that the domestic industry would not suffer serious harm as a result of the subdivision. The subdivision became effective on March 31, 1981. The Senate Finance Committee requested the investigation following allegations made by domestic jewelry representatives, at the Senate Finance Committee's November 25, 1980, oversight hearing, that the USTR had failed to consider possible negative effects on domestic manufacturers. The President had implemented the changes in the TSUS by Executive Order No. 12204, issued March 27, 1980, and to become effective March 31, 1981.

1/ See hearing reports, House Ways and Means Committee Subcommittee on Trade, May 8, 1980; Senate Committee on Finance, Subcommittee on International Trade, Nov. 25, 1980.

2/ For additional information, see the section on "Residual negotiating authority" earlier in this report.

In addition to the above investigations completed or in progress in 1980, on December 22, 1980, the USTR asked the Commission to investigate and submit advice on the probable economic effect of designating China as a GSP beneficiary. The United States recognized China as a developing country in 1979 in the Agreement on Trade Relations between the United States and the People's Republic of China, and accorded it MFN tariff treatment in February 1980. 1/ China is currently a GSP beneficiary under the European and Japanese schemes. The Commission instituted its formal investigation on the matter, No. 332-123, on January 23, 1981. The Commission is to conduct hearings and submit its report to the United States Trade Representative by June 1981.

U.S. GSP imports in 1980.--Table 26 shows the distribution of GSP benefits among beneficiary countries grouped by their level of economic development. Total GSP duty-free imports were $7.3 billion in 1980, 3 percent of total U.S. imports. Advanced GSP countries supplied 79 percent of GSP duty-free imports; middle income countries supplied 18 percent; and low-income beneficiaries supplied 3 percent. Thirty-four percent of eligible imports 2/ by advanced countries were excluded because of competitive-need limits. These exclusions accounted for 80 percent of all competitive-need exclusions. Figure 4 illustrates the relative shares of U.S. GSP imports from beneficiary countries grouped by development status. Imports from the top 10 recipients accounted for 75 percent of all GSP duty-free imports in 1980.

Low-income beneficiaries did not receive duty-free treatment under GSP on 33 percent of their eligible exports to the United States. This may be explained by failure to file proper forms by the exporter or importer, by failure to meet value-added or rules-of-origin requirements, or by the availability of other U.S. tariff provisions which might be easier to comply with.

Overall, 50 percent of eligible imports from all beneficiaries actually received duty-free treatment in 1980. 3/ GSP duty-free imports represented 11 percent of total imports from advanced beneficiaries; 6 percent of total imports from middle income beneficiaries, and 9 percent of imports from low-income countries.

1/ Since the United States considers China to be a Communist country, China must also join the General Agreement on Tariffs and Trade and the International Monetary Fund before it is eligible to be a GSP beneficiary under the U.S. scheme.

2/ For the purposes of this discussion and the tables which follow, the term "eligible imports" refers to all imports of items listed on the GSP eligible list. It does not refer to imports eligible for duty-free treatment. Only items that were not subject to competitive-need exclusions, meet the value-added and rules-of-origin requirements, and have completed all the administrative procedures necessary are eligible for and actually receive duty-free treatment. Those actually accorded duty-free treatment are here referred to as GSP duty-free imports.

3/ According to UNCTAD, the U.S. scheme had the highest utilization rate during 1978, defined as the percent of GSP eligible articles which actually receive duty-free treatment. (UNCTAD V, "Review and evaluation of the generalized system of perferences," TD/232, 1979)

Table 26.--U.S. imports for consumption from GSP beneficiary countries, by development status 1/, 1980

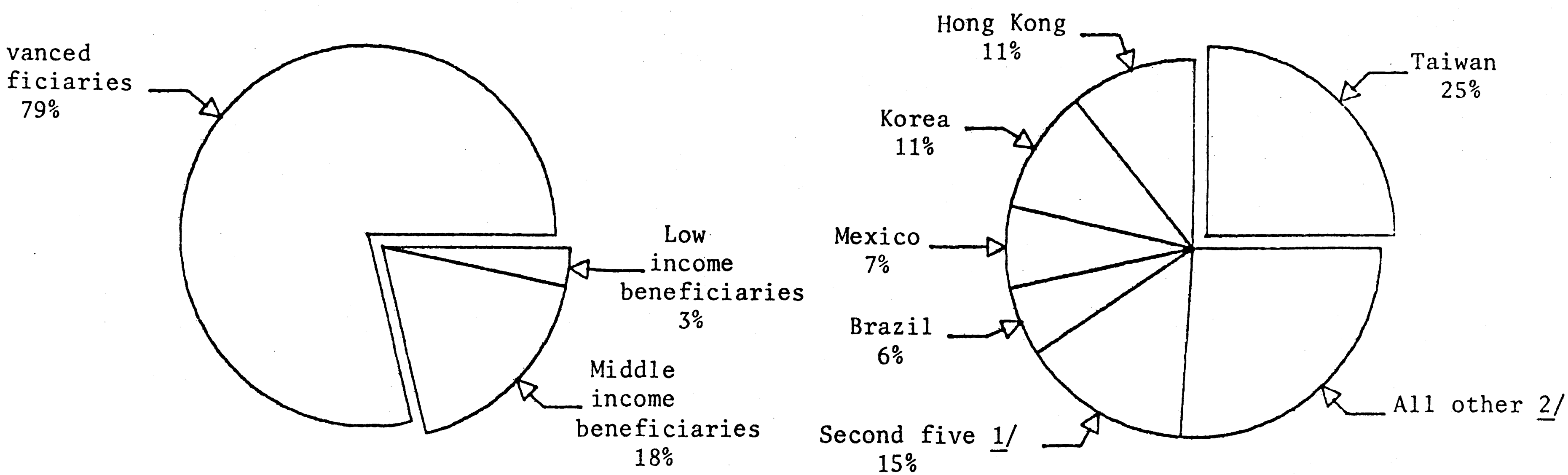
(Customs value basis)

Item	Advanced GSP beneficiaries	Middle-income GSP beneficiaries	Low-income GSP beneficiaries	Total, all beneficiary countries	Total, all countries
tal imports-----1,000 dollars-----	50,082,664	20,455,929	2,723,554	73,262,148	239,994,468
SP eligible-----------------do----	11,253,464	2,627,325	443,247	14,324,037	14,324,037
Duty free under GSP--------do----	5,726,214	1,299,933	239,840	7,265,989	7,265,989
Competitive-need exclusions 1,000 dollars------	3,928,861	953,325	53,207	4,935,394	4,935,394
Other----------------------do----	1,598,388	374,066	150,199	2,122,653	2,122,653
oneligible imports----------do----	38,829,199	17,828,604	2,280,306	58,938,111	225,670,430
:io of:					
GSP eligible imports to total imports----------------percent--	22	12	16	19	5
GSP duty-free imports to GSP eligible imports-------percent--	50	49	54	50	50
Competitive-need exclusions to GSP eligible imports---percent--	34	36	12	34	34
Other imports to GSP eligible imports----------------percent--	14	14	33	14	14
GSP duty free to total imports----------------percent--	11	6	9	10	3
Country group share of total GSP duty-free imports---------------	79	18	3	100	100
Country group share of total competitive-need exclusions-----	80	19	1	100	100

1/ For the purpose of this table, those countries having GNP per capita in 1979 over $1,405 were classified as ivanced GSP beneficiaries"; those with per capita GNP of less than $1,405 and more than $345 in 1979 were issified as "middle-income GSP beneficiaries"; and, those with GNP per capita of $345 or less in 1979 were issified as "low-income GSP beneficiaries."

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 4.--Relative shares of U.S. GSP duty-free imports from GSP beneficiaries during 1980



Imports by development level

Top ten recipients compared to total

1/ Singapore, Israel, Yugoslavia, Argentina, and India.
2/ All other GSP beneficiaries.

Source: Based on official statistics of the U.S. Department of Commerce.

The top 50 articles imported under GSP, by value of GSP eligible trade, and their principal duty-free suppliers are listed in table 27. As illustrated in the table, the leading category of goods represented in the top 50 items is electrical machinery and equipment, including semiconductors, telephone-switching equipment, citizen's band-transistor radios, and other small machinery. Other important items in the top 50 include auto parts, notably from Brazil and Mexico. On the average, 47 percent of eligible imports of the top 50 items were accorded duty-free treatment under GSP.

The top 5 GSP beneficiaries were the principal duty-free suppliers of 34 of the 50 items; Taiwan led in 13, Korea in 10, Hong Kong in 5, Mexico in 4, and Brazil in 2. Twenty-six of the 50 items were metals and metal products (TSUS schedule 6) and 17 were miscellaneous and nonenumerated products (TSUS schedule 7). This distribution illustrates the predominance of manufactures and semi-manufactures in the list of items eligible for GSP. Animal and vegetable products (schedule 1) accounted for 4 of the top 50, wood and paper products (schedule 2) for 2, textile and textile products (schedule 3) for 1, and nonmetallic minerals and products (schedule 5) for 2.

In table 28, GSP import data has been aggregated to the industry group (2-digit) level of the Standard Industrial Classification (SIC). Such a breakdown allows a comparison of total U.S. imports with U.S. production and consumption data. In value terms, the industries where GSP duty-free imports were concentrated in 1980 were food and kindred products, with $1.2 billion in duty-free imports; miscellaneous manufactures, with $978 million in duty free imports; fabricated metal products with $615 million in duty-free imports; and, furniture and fixtures with $352 million in duty-free imports. The top TSUS item listed in table 12, sugar, syrup, and molasses, accounted for over 60 percent of duty-free imports in the food and kindred products group.

Table 27.--U.S. imports for consumption of the top 50 eligible articles under GSP, by TSUS items and by leading duty-free sources, 1980

(Customs value basis)

TSUS item No.	Item description	Leading GSP duty free source	Total imports	GSP eligible imports	GSP eligible, share of total	GSP duty free	GSP duty-free share of eligible imports	Competitive-need exclusions	Other imports
			----1,000 dollars----		--Percent--	1,000 -dollars--	--Percent--	----1,000 dollars----	
155.20	Sugar, sirup and molasses------	Argentina---	1,994,896	1,787,240	89	740,827	41	907,187	139,226
612.05	Unwrought copper, nes----------	Zambia------	939,883	438,914	46	124,196	28	292,047	22,670
676.53	Office machine parts, n.e.s----	Korea-------	961,171	330,973	34	35,011	10	221,017	74,944
685.24	Solid state radio receivers----	Romania-----	512,844	298,643	58	11,394	3	285,763	1,485
734.20	Game machines------------------	Taiwan------	436,814	298,577	68	93,071	31	166,352	39,152
685.90	Switchboard panels-------------	-----do------	938,887	290,523	30	86,875	29	145,672	57,975
176.17	Coconut oil--------------------	Malaysia----	270,232	270,223	99	14,768	5	173,681	81,773
678.50	Machines, n.s.p.f--------------	Singapore---	1,073,703	229,587	21	35,238	15	135,711	58,637
692.32	Parts n.s.p.f. of motor vehicles.	Colombia----	1,540,136	228,447	14	42,842	18	144,761	40,843
737.95	Toys and parts-----------------	Korea-------	273,944	226,238	82	44,999	19	164,238	17,000
685.29	Hand-held citizens band radios.	-----do------	323,349	173,377	53	43,368	25	-	130,008
685.40	Tape recorders and dictation machines.	Singapore---	1,009,612	171,963	15	71,595	41	47,457	52,910
682.60	Generator, motor generator converters, etc.	Hong Kong---	421,631	162,657	38	44,235	27	81,526	36,896
684.50	Electric storage water heater.	Taiwan------	216,640	154,497	71	31,963	20	105,499	17,033
791.76	Wearing apparel n.s.p.f--------	Mexico------	170,906	148,049	86	13	-	94,767	53,268
740.10	Jewelry. etc., of precious metal.	Israel------	528,057	144,488	27	77,926	53	61,729	4,833
684.70	Microphones, loudspeakers------	Korea-------	412,953	141,106	34	55,419	39	76,549	9,138
661.06	Fans and blowers---------------	Hong Kong---	249,328	139,811	56	137,974	98	-	1,83
520.35	Rubies and sapphires-----------	Sri Lanka---	135,914	124,380	91	6,536	5	89,906	27,937
727.35	Wood furniture, n.s.p.f--------	Mexico------	314,556	122,199	38	76,795	62	40,690	4,71
676.20	Calculating machines-----------	Taiwan------	379,247	117,432	30	48,272	41	41,684	27,47
772.51	Pneumatic tires, n.e.s---------	India-------	1,175,075	115,633	9	40,795	35	73,341	1,49
107.48	Corned beef in airtight containers.	Brazil------	113,211	112,845	99	101,207	89	8,795	2,842
688.45	Electrical articles------------	Taiwan------	192,230	105,682	54	24,193	22	33,664	47,824
774.55	Articles, n.s.p.f., of rubber--	-----do------	298,972	97,531	32	65,340	66	-	32,19
727.29	Nonfolding chairs of wood------	Yugoslavia--	125,936	96,941	76	95,335	98	-	1,60
688.15	Insulated electrical conductors with fittings.	Taiwan------	147,768	91,870	62	12,018	13	55,266	24,58
748.40	Feathers and ornamental articles of feathers, n.e.s.	Korea-------	105,877	91,371	86	80,749	88	1,638	8,98
389.61	Artificial flowers, n.s.p.f----	Taiwan------	91,999	91,013	98	52,646	57	37,544	82
612.03	Unwrought black copper---------	Chile-------	95,315	90,569	95	71,804	79	6,912	11,85
688.12	Ignition wiring sets-----------	Taiwan------	96,781	89,945	92	13,213	14	75,451	1,28
674.35	Metal-working machine tools----	Singapore---	880,469	87,039	9	42,873	49	42,505	1,66
685.70	Electric sound or visual signaling apparatus and parts.	Malaysia----	177,640	86,471	48	27,959	32	-	58,51
740.38	Jewelry, etc. and parts n.s.p.f.	Taiwan------	108,829	81,792	75	69,891	85	5,677	6,22
737.49	Toy animals, etc., n.s.p.f-----	Korea-------	81,193	78,438	96	71,692	91	-	6,74
646.97	Pipe tools, wrenches-----------	Taiwan------	129,399	73,611	56	30,737	41	42,103	77
155.40	Sugar, sirup, molasses---------	Dominican Republic---	87,410	72,257	82	67,604	93	-	4,65
534.94	Nonbone chinaware--------------	Mexico------	140,073	71,629	51	24,546	34	44,601	2,48
696.10	Yachts, or pleasure boats------	Hong Kong---	110,300	71,309	64	22,958	32	46,331	2,01
654.01	Articles, n.s.p.f., of iron----	Korea-------	101,356	65,036	64	64,020	98	-	1,01
660.48	Piston-type engines------------	Brazil------	318,138	64,362	20	29,440	45	24,920	10,00
657.25	Articles of iron or steel------	Mexico------	280,198	64,176	22	57,755	89	-	6,4
735.20	Game, sport, playground equipment.	Korea-------	95,612	62,354	65	22,107	35	37,757	2,4
712.49	Electrical measuring, etc., devices n.s.p.f., and parts.	-----do------	478,866	60,893	12	21,311	34	-	39,5
684.62	Telephonic apparatus-----------	Taiwan------	355,033	60,711	17	37,661	62	-	23,0
727.55	Other furniture n.e.s----------	-----do------	190,086	59,884	31	56,872	94	-	3,0
772.15	Household articles-------------	Hong Kong---	88,187	59,074	66	57,949	98	-	1,1
791.15	Fur wearing apparel n.s.p.f----	Korea-------	80,626	59,074	66	57,949	98	-	3
256.87	Articles of coated paper	Dominican Republic---	59,710	58,574	98	5,811	9	40,584	12,1
206.98	Other wooden household utensils.	Thailand----	64,743	57,529	88	18,679	32	38,276	5

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 28.--U.S. imports for consumption of articles under GSP, by SIC Nos., 1980

(Customs value basis)

SIC No.	Item description	Total imports	GSP eligible imports	GSP eligible, share of total	GSP duty free imports	GSP duty free share of eligible imports	GSP duty free share of total imports
		-----1,000 dollars-----		Percent	1,000 dollars	----------Percent----------	
01	Agricultural production crops	6,618,436	201,349	3	60,540	30	-
02	Agricultural production livestock.	676,542	8,361	1	6,065	72	
08	Forestry	976,891	44	-	44	100	-
09	Fishing, hunting and trapping.	1,271,171	24,747	1	15,009	60	1
10	Metal mining	2,304,558	95,797	4	91,006	94	3
12	Bituminous coal and lignite mining.	82,895	-	-	-	-	-
13	Oil and gas extraction	74,770,091	-	-	-	-	-
14	Nonmetallic minerals, except fuels.	2,324,312	105,975	4	66,289	62	2
20	Food and kindred products	11,363,234	2,615,386	23	1,203,189	46	10
21	Tobacco manufactures	94,925	-	-	-	-	-
22	Textiles mill products	1,985,234	64,575	3	43,472	67	2
23	Apparel and other textile products.	6,584,699	477,033	7	239,985	50	3
24	Lumber and wood products	3,435,282	440,771	12	280,141	63	8
25	Furniture and fixtures	1,610,133	410,536	25	351,765	85	21
26	Paper and allied products	5,223,159	141,021	2	78,568	55	1
27	Printing and publishing	629,144	29,805	4	15,912	53	2
28	Chemicals and allied products.	7,231,101	275,942	3	218,963	79	3
29	Petroleum and coal products	4,513,521	4,575	-	2,103	45	-
30	Rubber and miscellaneous plastic products.	3,037,622	469,571	15	303,555	64	9
31	Leather and leather products	3,415,759	152,441	4	109,935	72	3
32	Stone, clay, and glass products.	2,227,499	266,455	11	180,165	67	8
33	Primary metal industries	18,154,861	837,696	4	393,206	46	2
34	Fabricated metal products	5,421,242	811,853	14	615,054	75	11
35	Machinery, except electrical	14,135,361	1,267,096	8	663,241	52	4
36	Electric and electronic equipment.	14,731,781	2,606,705	17	859,903	32	5
37	Transportation equipment	29,092,166	559,408	1	241,690	43	-
38	Instruments and related products.	5,121,815	429,557	8	233,144	54	4
39	Miscellaneous manufacturing industries.	5,328,678	1,985,496	37	977,574	49	18
91	Executive, legislative, and general.	683,964	32,678	4	11,919	36	1
98	U.S. goods returned	3,727,710	-	-	-	-	-
99	Nonclassifiable establishments.	3,221,668	9,149	-	3,537	38	-
	Grand total	239,994,454	14,324,022	5	7,265,974	50	3

Source: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX TABLES

Table A-1-- Leading items imported from the EEC, by TSUS items, 1979, 1980, and 1981

TSUS Item No	Description	1979	1980	1981
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more	$1,462,114,034	$1,961,024,451	$5,301,679,755
692.10	Passenger automobiles, snowmobiles, trucks valued under $1000, and other miscellaneous vehicles	4,094,063,539	4,585,913,651	3,667,102,275
800.00	United states goods returned	586,387,354	736,847,427	1,017,613,638
694.41	Airplanes and parts thereof of civil aircraft and spacecraft	1/ 376,028,524	641,894,336	818,936,119
660.61	Internal combustion engines,non-piston-type,for aircraft,certified for use in civil aircraft	2/ -	483,766,530	682,959,428
692.32	Parts, n.s.p.f., of motor vehicles,not alloyed nor advanced beyond cleaning,partly machined	3/ 697,444,468	642,863,664	533,881,825
167.30	Still wine from grapes, not over 14% alcohol, in containers not over 1 gal.	441,349,091	480,275,768	505,061,315
692.34	Tractors suitable for agricultural use and parts thereof	613,693,590	595,433,573	474,980,268
475.25	Motor fuel, including gasoline and jet fuel	313,999,687	180,363,207	426,805,999
610.39	Steel api oil well casing and steel pipes and tubes of rectangular cross section, not threaded, advanced or alloyed	5,426,674	48,357,959	420,455,051
169.19	Irish and scotch whiskey in containers each holding not over 1 gallon	4/ 341,651,635	281,857,531	389,249,466
772.51	Pneumatic tires, n.e.s.	624,435,968	506,199,036	386,776,076
520.33	Diamonds over 1/2 carat, cut, not set, for jewelry	148,722,061	266,569,550	383,217,154
607.83	Plates and sheets of iron and steel,not alloy,not coated or plated with metal and not clad, pickled and cold rolled	5/ -	239,064,203	367,037,778
520.32	Diamonds not over 1/2 carat, cut, not set, suitable for jewelry	197,213,539	232,855,418	340,502,105
700.45	Leather footwear nes, valued over $2.50 per pair, not for men, youths, or boys	463,316,267	313,523,838	324,397,661
664.08	Mechanical shovels,coal-cutters,etc,stationary or mobile for earth,minerals,or ores,or pile drivers, n.s.p.f.	6/ -	276,873,815	318,459,782
674.35	Metal-working machine tools, n.e.s.	294,754,323	320,618,989	298,974,307
694.62	Aircraft and spacecraft parts,nec,certified for use in civil aircraft (see headnote 3 in tsus)	7/ -	240,674,182	287,270,709
607.66	Plates other than alloy iron or steel not coated or plated with metal and not clad, not pickled, and not cold rolled	8/ -	216,225,257	284,980,577
	Total	10,660,600,754	13,251,202,385	17,230,341,288
	Total, U.S. imports from EEC	33,810,596,647	36,409,234,849	41,459,394,814

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 694.40.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 660.46.
3/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 692.27.
4/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 168.45.
5/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 608.85.
6/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 664.05
7/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 694.40.

Table A-2-- Leading items exported to the EEC, by Schedule B items,1979, 1980, and 1981

Sch. B Item No	Description	1979	1980	1981
175.41	Soybeans, except for planting	$2,292,705,434	$2,649,371,440	$2,817,818,797
521.31	Coal of all classifications, coke for fuel, and compositions of coal, coke or carbonaceous material for fuel	1,083,864,050	1,735,119,002	2,357,099,079
694.40	Aircraft	1,430,658,591	2,586,158,348	2,116,491,993
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying machines, and similar units	1,267,352,327	1,716,006,626	1,934,655,812
605.20	Gold or silver bullion, dore, and precipitates	2,160,796,659	1,921,729,469	1,920,063,217
676.28	Digital central processing units and other automatic data processing machines (and units thereof), n.s.p.f.	1,308,876,082	1,821,861,507	1,830,351,414
694.65	Parts for aircraft and spacecraft	929,593,404	1,219,623,133	1,505,193,756
660.54	Parts of internal combustion engines, nes	735,949,768	965,074,657	1,195,435,916
130.34	Corn or maize, not donated for charity or relief	1,222,167,971	1,385,217,998	1,185,048,006
184.52	Soybean and cottonseed oil cake and oil-cake meal	643,798,463	896,633,129	859,223,070
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	549,268,712	753,652,060	804,677,844
664.05	Mechanical shovel fr earth etc snow plows,etc and parts	523,905,149	661,631,479	776,702,092
184.80	Animal feeds containing milk or milk derivatives	492,491,025	703,172,082	651,743,736
687.60	Electronic tubes,photocells, transistors,etc and parts,n.e.s.	544,401,501	736,679,008	600,100,915
712.50	Electrical measuring etc devices nspf and parts thereof	366,599,219	473,714,996	495,052,616
676.27	Digital machines comprising in one housing the central processing unit and input and output capability	383,752,688	492,150,477	456,083,930
170.33	Cigarette leaf, not stemmed, nes, phil article, within quota	410,534,784	472,257,937	442,268,460
433.10	Chemical mixtures and preparations	306,486,391	424,749,274	423,739,653
692.38	Tractors, parts	381,796,233	456,002,990	422,012,798
685.90	Electrical apparatus for making or breaking electrical circuits,protection of electrical circuits,making connections to or in circuits	315,484,333	418,712,874	414,092,464
	Total	17,350,482,784	22,489,518,486	23,207,855,568
	Total, U.S. exports to EEC	42,020,930,792	53,088,856,085	50,626,028,818

Table A-3-- Leading items imported from CANADA, by TSUS items, 1979, 1980, and 1981

TSUS Item No	Description	1979	1980	1981
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof	$3,020,253,209	$4,130,745,316	$4,514,668,659
692.11	Passenger automobiles, snowmobiles, and other miscellaneous vehicles, APTA	4,024,788,014	3,814,655,722	4,276,685,765
252.65	Standard newsprint paper	2,249,469,563	2,578,687,024	2,807,548,756
692.03	Trucks valued at $1000 or more each, APTA	1,488,354,586	1,330,989,386	1,894,519,215
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	1,404,802,922	1,610,494,139	1,654,192,493
605.20	Gold or silver bullion, dore, and precipitates	805,246,018	1,832,679,230	1,635,647,092
692.33	Parts,n.s.p.f. of motor vehicles not alloyed nor advanced beyond cleaning,partly machined, APTA	1/ -	1,361,157,226	1,573,579,388
800.00	United States goods returned	1,012,083,944	1,190,070,416	1,463,033,283
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more	1,404,212,917	1,496,465,371	1,299,476,502
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing, under 25 degrees a.p.i.	738,771,933	986,081,400	1,204,026,182
202.03	Spruce lumber	1,378,920,475	1,067,488,496	1,047,202,112
601.24	Iron ore, including manganiferous containing not over 10% by weight of manganese, and the dross or residuum from burnt pyrites	683,286,024	581,758,572	707,974,220
480.50	Potassium chloride or muriate of potash	481,795,050	587,563,443	677,416,706
660.49	Piston-type engines other than compression-ignition engines for automobiles(incl. trucks and buses), APTA	2/ -	272,739,231	486,917,201
666.00	Agricultural and horticultural machinery and parts	616,607,051	612,918,002	482,469,778
664.08	Mechanical shovels,coal-cutters,etc,stationary or mobile for earth,minerals,or ores,or pile drivers,n.s.p.f.	3/ -	95,751,116	395,807,314
620.03	Unwrought nickel	317,475,896	371,431,770	372,581,740
618.02	Unwrought aluminum, n.e.s. other than alloys of aluminum	179,011,403	309,736,647	371,315,858
618.06	Other unwrought alloys of aluminum	228,936,387	328,398,708	368,184,695
653.22	Metal coins	112,075,957	500,022,152	360,092,094
	Total	20,146,091,349	25,059,833,367	27,593,339,053
	Total, U.S. imports from Canada	37,765,936,847	40,877,070,358	45,776,018,449

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 692.28.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 660.40.
3/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 664.08.

Table A-4-- Leading items exported to CANADA, by Schedule B items, 1979, 1980, and 1981

Sch. B Item No	Description	1979	1980	1981
692.29	Automobile truck tractors, imported without their trailers	$3,572,818,828	$3,179,639,945	$3,812,638,059
692.10	Passenger automobiles, snowmobiles, trucks valued under $1000, and other miscellaneous vehicles	3,344,608,603	3,066,292,172	3,177,619,576
521.31	Coal of all classifications, coke for fuel, and compositions of coal, coke or carbonaceous material for fuel	979,503,961	905,350,930	1,017,849,005
660.48	Piston-type engines other than compression-ignition for automobiles (including trucks and buses)	738,269,047	727,524,294	789,060,856
694.40	Aircraft	509,113,769	438,401,581	708,992,765
605.20	Gold or silver bullion, dore, and precipitates	826,753,166	1,016,192,856	693,043,157
666.00	Agricultural machinery and parts - and horticultural	504,864,195	554,360,593	643,329,040
664.05	Mechanical shovel fr earth etc snow plows, etc and parts	741,219,284	745,877,367	639,590,186
475.07	Crude petroleum, crude shale oil, and distillate and residual fuels derived from either	428,702,763	778,992,142	622,297,456
676.28	Digital central processing units and other automatic data processing machines (and units thereof), n.s.p.f.	314,238,681	403,896,839	515,212,478
692.33	Parts nspf of motor vehicles, not alloyed nor advanced beyond cleaning, partly machined (apta)	350,411,729	337,348,564	507,969,355
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying machines, etc.	343,597,386	408,794,102	504,272,774
692.05	Automobile trucks valued at $1000 or more and motor buses no.	701,419,157	412,095,462	470,576,284
692.20	Automobile truck and motor bus chassis and bodies	463,359,089	326,311,299	394,545,851
660.54	Parts of internal combustion engines, nes	287,734,648	324,593,647	388,083,609
605.70	Precious metal sweepings and other precious metal waste and scrap	123,338,450	547,283,991	375,376,902
660.41	Compression-ignition internal combustion piston-type engines	269,771,738	280,816,413	341,604,070
692.38	Parts of tractors, n.s.p.f. waste and scrap	249,480,175	292,245,769	326,973,738
660.52	Parts of piston-type engines except compression-ignition engines	228,002,509	203,438,336	286,594,348
687.60	Electronic tubes, not for television	165,428,164	224,794,942	271,387,280
	Total	15,142,635,342	15,174,251,244	16,487,016,789
	Total, U.S. exports to Canada	32,159,865,796	33,984,904,623	38,157,178,778

Table A-5-- Leading items imported from JAPAN, by TSUS items, 1979, 1980, and 1981

TSUS Item No.	Description	1979	1980	1981
692.10	Passenger automobiles, snowmobiles, trucks valued under $1000, and other miscellaneous vehicles	$6,597,263,576	$8,364,355,570	$9,680,507,307
692.02	Trucks valued at $1000 or more each	25,341,111	375,725,789	1,811,976,913
685.40	Tape recorders and dictation and transcribing machines,and parts thereof	740,039,986	892,271,208	1,485,474,266
692.50	Motorcycles	825,909,951	1,038,948,430	1,215,644,230
676.30	Office machines,n.s.p.f.	346,523,889	454,857,363	740,285,634
610.42	Steel api oil well casing and steel pipes and tubes of rectangular cross section, threaded or advanced, not alloyed	129,951,854	345,661,235	602,430,792
678.50	Machines, n.s.p.f.,and parts thereof	445,576,442	426,945,376	599,128,465
610.32	Iron or steel pipes and tubes, welded, jointed, or seamed, not alloyed, 0.375 inch or more in outside diameter	299,276,651	336,235,644	523,135,537
692.32	Parts nspf of motor vehicles,not alloyed nor advanced beyond cleaning,partly machined	1/ 354,933,345	349,735,438	457,280,217
722.16	Photographic cameras, other than fixed-focus, over $10 each, lens not over 50% value	451,846,106	377,384,178	437,134,932
610.49	Iron or steel pipes and tubes, not suitable for use in the manufacture of ball or roller bearings, not alloyed, not hollow bars	116,675,810	202,249,731	433,632,431
674.35	Metal-working machine tools, n.e.s.	257,183,707	328,317,830	428,697,315
676.52	Office machine parts, n.e.s.	195,569,791	226,181,882	402,518,793
685.50	Radiotelegraphic and radiotelephonic transmission and reception apparatus, n.e.s.	248,608,117	252,084,564	394,563,391
608.13	Sheets of iron and steel,n.s.p.f., not alloy, coated or plated with metal valued over 10¢ per lb	2/ 540,336,043	387,773,019	360,384,626
772.51	Pneumatic tires,n.e.s.	209,821,583	263,959,386	358,607,746
684.70	Microphones,loudspeaker,head phones etc and parts	264,757,405	232,544,606	298,414,724
685.11	Complete monochrome and color television receivers having video displaydiagonals of all different sizes	3/ -	151,004,680	285,468,754
685.90	Electrical apparatus for making or breaking electrical circuits,protection of electrical circuits,making connections to or in circuits	195,851,981	227,477,150	280,862,579
610.39	Steel api oil well casing and steel pipes and tubes of rectangular cross section, not threaded or advanced, not alloyed	108,029,063	173,482,491	279,524,922
	Total	12,353,496,411	15,407,195,570	21,075,673,574
	Total, U.S. imports from JAPAN	26,333,924,306	30,698,299,285	37,471,371,420

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted and more comprehensive item 692.27.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 608.9500.
3/ [illegible]

Table A-6-- Leading items exported to JAPAN, by Schedule B items, 1979, 1980, and 1981

Sch. B Item No	Description	1979	1980	1981
130.34	Corn or maize, not donated for relief or charity	$1,203,192,797	$1,632,411,126	$1,791,960,558
521.31	Coal of all classifications, coke for fuel, and compositions of coal, coke or carbonaceous material for fuel	971,408,191	1,396,934,718	1,569,612,634
175.41	Soybeans, except seed for planting	1,031,857,996	1,105,237,961	1,137,877,555
200.35	Logs and timber,rough,split,hewn, or roughly sided or squared but not made into lumber	1,482,642,151	1,300,813,102	831,638,793
694.40	Aircraft	591,659,352	680,842,009	776,299,774
130.65	Wheat unfit for human consumption	537,260,402	596,182,862	615,025,196
300.10	Raw cotton, having a staple length under 1 1/8 inches	438,660,282	513,885,570	497,101,484
694.65	Parts for aircraft and spacecraft	249,291,909	403,432,532	486,850,644
130.40	Grain sorghum	249,648,872	496,981,049	409,841,240
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying machines, and similar units	184,975,404	257,750,694	331,197,024
676.28	Digital central processing units and other automatic data proceesing machines (and units thereof), n.s.p.f.	226,043,632	312,150,996	329,378,628
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof	123,193,276	218,912,257	329,062,845
618.03	Unwrought aluminum, other than alloys of aluminum	79,975,843	408,915,160	310,100,250
250.02	Wood pulp; rag pulp; and other pulps derived from cellulosic fibrous materials and suitable for papermaking	224,974,870	336,068,041	303,035,143
110.46	Fish, fresh, chilled, or frozen	236,981,599	154,946,972	300,415,139
170.33	Cigarette leaf, not stemmed, nes, phil article, within quota	226,959,394	194,871,044	297,762,124
120.14	Cattle hides or skins weighing over 12 lbs each when dried or dry-salted,or over 25 lbs each when wet or wet-salted	298,098,268	250,833,866	255,121,232
200.15	Wood chips other than waste	180,628,825	358,596,113	235,182,178
678.50	Machines, n.s.p.f., and parts thereof	122,757,541	152,310,645	220,295,085
712.50	Electrical measuring etc devices n.s.p.f. and parts thereof	150,497,747	165,860,956	202,664,025
	Total	8,810,708,351	10,937,937,673	11,230,421,551
	Total, U.S. exports to Japan	17,281,217,164	20,472,001,280	21,333,015,508

Table A-7-- Leading items imported from MEXICO, by TSUS items, 1979, 1980, and 1981

TSUS Item No	Description	1979	1980	1981
475.10	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils, testing 25 degrees a.p.i. or more	$3,010,591,110	$4,572,047,818	$3,942,203,860
475.05	Crude petroleum, topped crude petroleum, crude shale oil, distillate and residual fuel oils testing, under 25 degrees a.p.i.	28,052,277	1,422,646,458	2,239,568,321
475.15	Natural gas, methane, ethane, propane, butane and mixtures thereof	5,778,425	551,554,761	652,447,857
653.22	Metal coins	123,707,395	196,436,446	423,269,989
114.45	Shellfish other than clams, crabs, or oysters	317,014,066	338,370,320	316,132,983
800.00	United states goods returned	150,743,497	245,281,348	279,457,410
685.15	Main printed circuit boards with specified components for color tv's,except tuners or covergence assemblies (hdnote 3(b)(i))	1/ 150,379,470	229,594,355	265,988,039
160.10	Coffee, crude, roasted or ground	410,501,914	302,445,674	245,866,189
605.20	Gold or silver bullion, dore, and precipitates	248,208,179	267,693,948	209,478,689
685.90	Electrical apparatus for making or breaking electrical circuits,protection of electrical circuits,making connections to or in circuits	119,327,478	145,672,800	189,888,092
137.60	Tomatoes, fresh or chilled, entered Mar. 1 to July 14 and Sept. 1 to Nov. 14, incl., not reduced in size	88,601,776	82,471,207	177,023,905
692.32	Parts n.s.p.f of motor vehicles, not alloyed nor advanced beyond cleaning,partly machined	2/ 163,965,635	149,841,379	157,465,632
685.19	Other television apparatus and parts thereof,n.s.p.f.	3/ 84,000,650	106,861,967	142,767,930
688.12	Ignition wiring sets and wiring sets for transportation equipment	50,126,289	75,451,256	131,013,413
685.16	Main printed circuit boards for color television receivers,except tuners or convergence assemblies, n.e.s.	4/ 74,743,777	78,691,052	110,626,601
415.45	Sulfur	69,648,201	85,316,135	108,220,607
999.95	Under $251 formal and informal entries estimated	116,927,000	80,906,300	107,984,100
685.18	Cabinets,antennas,deflection yokes,convergence assemblies,flybacks,focus coil,etc.; for television receivers	5/ 232,212,749	192,524,625	100,714,705
676.52	Office machine parts, n.e.s.	58,372,083	72,847,399	100,438,383
682.60	Office machine parts, n.e.s.	58,406,502	81,526,096	98,840,527
	Total	5,561,308,473	9,278,181,344	9,999,397,232
	Total, U.S. imports from Mexico	8,784,893,926	12,497,653,066	13,703,637,079

1/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.
2/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 692.27.
3/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.
4/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.
5/ Prior to Jan. 1, 1980, this item was classified under the now-deleted item 685.20.

Table A-8-- Leading items exported to MEXICO, by Schedule B items, 1979, 1980, and 1981

Sch. B Item No	Description	1979	1980	1981
692.29	Automobile truck tractors, imported without their trailers	$671,751,552	$962,866,564	$1,333,901,840
694.40	Aircraft	198,294,988	364,471,308	640,592,867
130.34	Corn or maize, not donated for charity or relief	116,093,704	680,374,569	452,130,303
664.05	Mechanical shovel for earth etc., snow plows, etc. and parts	350,135,084	349,369,322	427,613,101
130.40	Grain sorghum	139,765,465	331,239,356	339,745,150
685.90	Electrical apparatus for making or breaking electrical circuits, protection of electrical circuits, making connections to or in circuits	165,089,586	236,437,364	306,183,875
140.08	Pinto beans, except seed	7,998,991	174,744,161	262,281,271
687.60	Electronic tubes, photocells, transistors, etc and parts, n.e.s.	175,547,857	227,375,101	242,458,686
660.54	Parts of internal combustion engines, n.e.s.	262,745,720	281,408,604	237,011,081
652.91	Iron or steel structures or structural parts	58,440,157	141,810,249	234,547,029
685.20	Television apparatus	218,969,835	175,463,444	211,738,931
175.41	Soybeans, except seed for planting	118,277,313	259,410,704	207,918,207
130.65	Wheat unfit for human consumption	197,083,430	122,572,298	206,180,117
666.00	Agricultural machinery and parts - and horticultural implements, n.s.p.f.	87,181,132	165,316,277	157,167,974
674.35	Metal-working machine tools, nes	45,096,003	94,463,161	156,638,270
682.60	Generators	70,005,845	106,956,562	155,582,603
676.55	Parts of calculating machines, cash registers, automated data processing machines and units, photocopying and similar units	98,022,523	132,955,540	154,675,258
155.20	Sugars, sirups, and molasses, derived from sugar cane or sugar beets, principally of crystalline structure or in dry amorphous form	107,192	137,064,518	154,071,237
692.16	Motor vehicles, specially constructed designed for special services or functions	76,729,080	115,525,934	149,139,130
678.50	Machines, n.s.p.f.	89,030,587	108,346,899	144,787,678
	Total	3,166,366,044	5,168,171,935	6,174,364,608
	Total, U.S. exports to Mexico	9,662,504,600	14,881,433,243	17,353,054,111