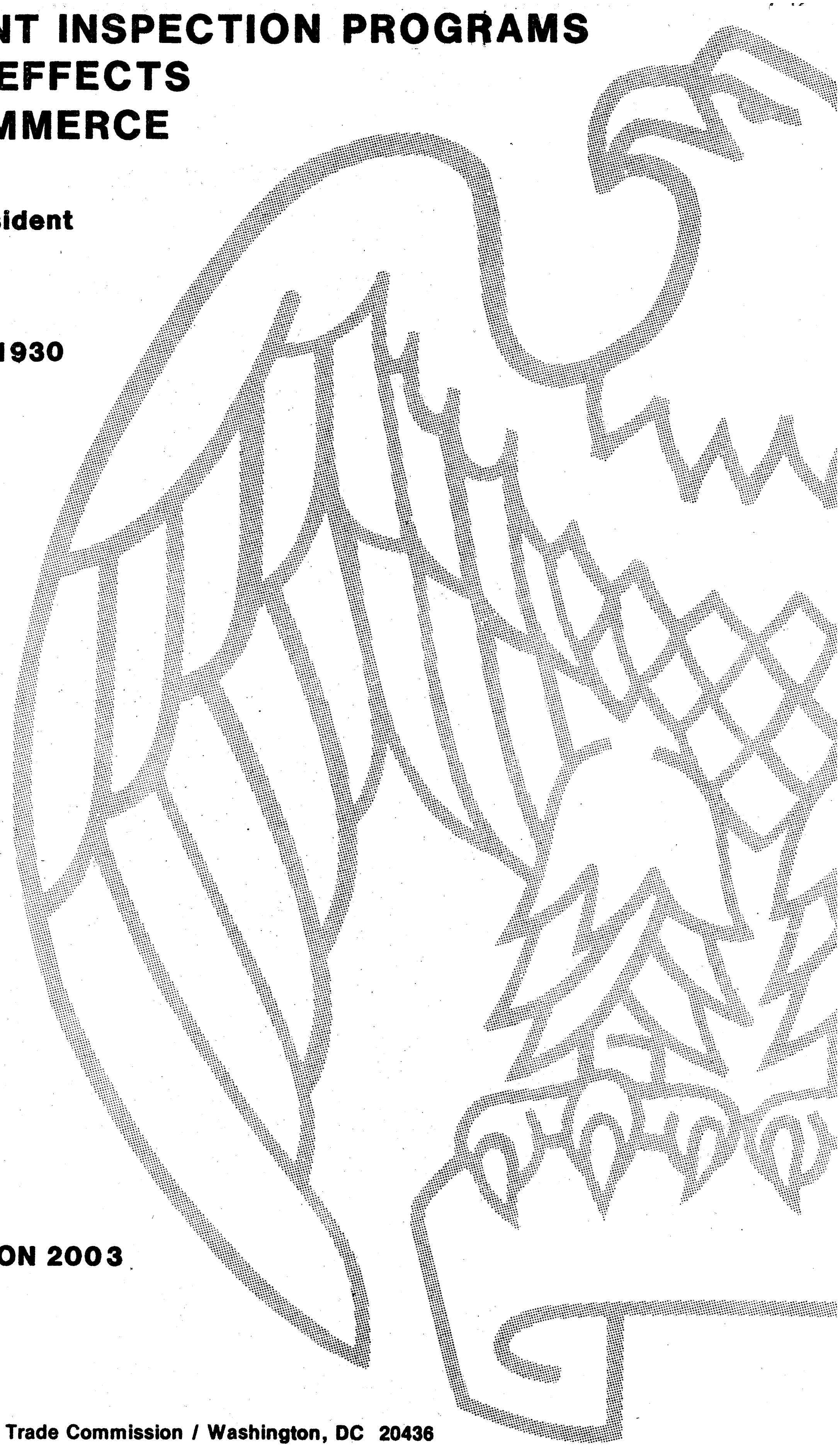
PRESHIPMENT INSPECTION PROGRAMS AND THEIR EFFECTS ON U.S. COMMERCE

Report to the President on Investigation No. TA-332-242 Under Section 332 of the Tariff Act of 1930



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PREFACE

On December 16, 1986, the U.S. International Trade Commission instituted investigation No. 332-242, Preshipment Inspection Programs and Their Effects on U.S. Commerce. The investigation was instituted at the request of the United States Trade Representative under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)). The Commission received the request on October 24, 1986. Public notice of the investigation was given by posting a copy of the notice in the Office of the Secretary, U.S. International Trade Commission. Washington, DC, and by publishing the notice in the Federal Register of December 31, 1986 (vol. 51, No. 250, p. 47315).

The information contained in this report is taken from three primary sources: (1) questionnaire responses from a sample of U.S. exporters and producers, (2) questionnaire responses from the three inspection companies conducting preshipment inspection programs in the United States, and (3) information supplied by U.S. Embassies in countries using preshipment inspection programs. In addition, information was obtained from briefs filed by interested parties, the U.S. Census export data base, other Government agencies, and other sources.

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NOTICE

THE WHOLE OF THE COMMISSION'S REPORT TO THE PRESIDENT IN JULY 1987 MAY NOT BE MADE PUBLIC SINCE IT CONTAINS INFORMATION THAT HAS BEEN CLASSIFIED BY THE UNITED STATES TRADE REPRESENTATIVE OR WOULD RESULT IN THE DISCLOSURE OF THE OPERATIONS OF INDIVIDUAL CONCERNS. THIS PUBLISHED REPORT IS THE SAME AS THE REPORT TO THE PRESIDENT, EXCEPT THAT THE ABOVEMENTIONED INFORMATION HAS BEEN OMITTED. SUCH OMISSIONS ARE INDICATED BY ASTERISKS.

SUMMARY

Chapter 1. Preshipment Inspection Programs

- o In 1986, 25 developing countries in Africa, Asia, Latin America, and Central America required preshipment inspection (PSI) of their imports from a number of countries, including the United States.

Generally, the African PSI programs are the oldest, the Indonesian program is the largest, and the Latin American and Central American programs are the most recently implemented.

- o These inspections were conducted pursuant to government decrees and/or contracts negotiated between the developing country governments and 3 private inspection companies.

In most instances, the country's Central Bank is the contracting principal. The 3 private inspection companies conducting PSI of U.S. exports are foreign-owned: SGS Control Services, Inc., an affiliate of a Swiss company; Intertek Services International, Ltd., owned by a United Kingdom-based corporation; and Bureau Veritas, a French company.

- o The PSI programs most frequently encountered by U.S. exporters are performed by SGS Control Services, Inc. under its Comprehensive Import Supervision Service (CISS) programs. However, the procedures are generally the same for the other inspection companies as well.

SGS has contracts with, or is licensed by 23 of the 25 countries requiring PSI of U.S. exports. The inspection process provided for under the CISS program consists of four steps: physical inspection of quality and quantity of the proposed shipment; a price comparison to determine if the transaction value corresponds "within reasonable limits to the export market price generally prevailing in the country of origin/supply"; a review of documents; and issuance of a Report of Findings. By means of published regulations, the importing nation generally makes the Report of Findings issued by the inspection company a compulsory document for supporting payment for imports and, in some cases, clearance through customs.

- o The 11 contracts reviewed by the Commission were similar in scope and largely similar in format.

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o Generally, the preshipment inspection services contract covers 14 basic topics.

The 14 topics are: (1) the purpose of the contract; (2) the nature and scope of the inspection services to be rendered; (3) obligations regarding comparison of prices; (4) obligations of the contracting government; (5) identification of the goods subject to inspection and the goods to be exempt; (6) special procedures regarding inspections of goods from certain countries; (7) exempt transactions; (8) reporting requirements; (9) obligations of the inspection company and vendors; (10) fees and other charges; (11) method of payment; (12) liability; (13) resolution of disputes between the contractor and government; and (14) term of the contract.

o The major problems and complaints associated with PSI reported by U.S. exporters are: (1) the nontransparent nature of the price verification procedure; (2) the potential adverse effects of PSI price determinations; (3) the substantial delay caused to shipments; (4) increased administrative costs; and (5) the potential for compromised confidential business information.

Many exporters submitting comments to the Commission on PSI expressed an appreciation for the need of developing countries to manage their foreign-exchange outflow and institute checks to eliminate fraud. However, exporters generally objected to the tremendous control inspection companies can exert over their international transactions. Although the inspection companies contend they do not have the power to prevent a shipment, they can withhold issuance of a Clean Report of Findings. This is a powerful tool since such a report is required for payment, and in some cases, clearance through customs.

o The price comparison procedure is the most contentious aspect of the inspection process. Under the criteria used by inspection companies to determine an acceptable price, it is possible that proposed export prices could be rejected by the inspection company even when there is no evidence of deliberate overinvoicing or underinvoicing, hidden fees, or other illegitimate activity.

The inspection company identifies the range of prices that constitute the prevailing export market price on the reference date and compares the base export price of the proposed shipment with that range. If the price is higher than the range, the seller is "invited" by the inspection company to submit further information justifying the price. However, in the context of customs valuation (involving exports to Indonesia), when invoice value is determined by the inspection company to be below prevailing export market price, the seller is not contacted to revise prices. Instead, the importer is responsible for paying the increased duty.

o The inspection companies reported that of the $2.9 billion in U.S. exports that were inspected in 1986, less than 1 percent failed to receive a Clean Report of Findings. This is consistent with information supplied by exporters responding to the Commission questionnaire.

Over one-third of the value of exports inspected consisted of machinery and transport equipment, and over one-fifth consisted of chemical and related products. While the inspection companies reported less than $3 billion in U.S. exports were inspected in 1986, U.S. Department of Commerce data show that total U.S. exports in 1986 to countries requiring PSI totalled over $19 billion.

- All three inspection companies questioned invoice price more often than product quality. Rarely did an exporter cancel an order or receive a Non-negotiable Report of Findings following a disputed shipment; transactions almost invariably proceeded, although often at a reduced price.

Generally, the percentage of shipments where prices were questioned was greater than that in which product quality was questioned.

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Chapter 2. U.S. Experiences Under PSI Programs

- The Commission had an 80 percent response rate to its questionnaire for U.S. exporters and producers. Total exports from sampled respondents to the PSI countries in 1986 were valued at $1.6 billion, or 8.2 percent of total U.S. exports to these countries. About 50.2 percent of the value of these shipments were inspected.

Thirty-three percent of the sampled respondents' shipments to PSI countries were animal and vegetable products; 24 percent were chemicals and related products; 23 percent were metals, metal products, machinery and transportation equipment; 6 percent miscellaneous and nonenumerated products; 5 percent were wood, paper, and printed products; and 5 percent were textile fibers and textile products. Nonmetallic minerals and products and special classifications items each accounted for less than 2 percent of the total shipments.

- The majority of comments received from the respondents regarding PSI were negative.

About 70 percent of respondents had strong objections to PSI, based either on principles (e.g., hindrance to free trade, compromise of confidential business information) or bad experiences (e.g., increased costs, lost paperwork, delays, etc.). About two-thirds of the respondents objecting to PSI had specific complaints regarding the qualifications of the PSI company employees conducting the inspections, delays in shipments, additional costs, and delays in payments resulting from PSI. About 19 percent of the respondents commented favorably on the inspection process, most of them indicating support for the programs or acceptance of the need to cooperate with the inspection companies. The rest of the respondents reported insufficient experience with PSI to comment.

- Whether or not inspected, respondents reported that shipments to countries requiring PSI took 3 times as long as shipments to countries that do not require PSI.

The respondents reported that the average number of calendar days required to complete a shipment, whether or not inspected, to countries requiring PSI was 21 calendar days. An average of 7 days was required to complete a shipment to a country that does not require PSI. Comparing these two figures provides a good indication of the additional length of time required overall for shipping to countries requiring PSI, but does not represent the additional length of time required for PSI alone. Other factors may also affect the process of exporting to developing countries requiring PSI's.

- Respondents reported that 8.5 percent of total shipments to countries requiring PSI experienced delays in 1986. Of the shipments that were inspected, 40 percent were delayed due to the PSI process.

Respondents reported that when delays associated with inspection occurred, the average length of delay was 20 calendar days. The total value of the delayed shipments amounted to $319 million.

- Respondents reported that their invoice prices were assessed by the inspection companies as too high in 3.5 percent of the total number of inspected shipments. Two-thirds of the disputes involving price were resolved in favor of the exporter, but in one-fifth of the disputed shipments prices were reduced in order to proceed with the sale.

In 66.8 percent of the cases where the inspection companies questioned prices as too high, the exporter provided additional documentation in support of its prices and the inspection company accepted the original price. In 19.5 percent of the disputed cases, the exporter decreased the transaction price in order to proceed with the shipment. The reduction in price meant lost revenues of 10.5 percent of the total value of affected shipments. In 4.9 percent of the disputed cases, the repondents reported that they received a Non-negotiable Report of Findings, and in 1.1 percent of the cases, the respondents cancelled the disputed shipments. The remaining 7.7 percent of respondents specified "other" action was taken.

- Respondents most frequently indicated that the inspection company notified their firm that there was a question regarding price when the final documents were presented to the inspection company, i.e., after the product had been loaded for transport.

Of those exporters reporting that their price was questioned, about 35 percent said they were notified about the inspection company's disagreement with their price when the final documents (which includes shipping documents) were presented to the inspection company. About 29 percent reported they were notified after the shipment was made, and 29 pecent said they were notified during the preliminary price comparison stage.

- o <u>According to data supplied by the respondents, PSI adds to the exporter's cost of doing business with countries requiring this service. Additional costs include those associated with shipment delays, personnel, and administration</u>.

Costs associated with delays in shipments include delayed payments, charges incurred for letter of credit discrepancies, and demurrage charges. Personnel costs include the costs of personnel required to arrange the physical inspection, to complete paperwork, and to resolve any problems that arise concerning invoice prices. Other administrative costs include telephone calls, courier fees and costs incurred for second inspections.

- o <u>Costs associated with delayed payments generally vary with size and value of the shipment. Some costs, such as courier fees and telephone charges may not vary with the size and value of the shipment</u>.

Therefore, companies that make small shipments may incur larger costs relative to the value of the shipments than do companies that make large shipments. Smaller companies whose costs are large relative to the value of their shipments are likely to either exit from the market or seek export markets where PSI is not required.

- o <u>The Commission estimates that if an exporter experienced all of the problems reportedly associated with PSI, the inspection process would add an additional cost of 2.8 percent of the value of the shipment to the cost of exporting to that country</u>.

However, exporters will not incur all costs on all shipments. Rather, they can expect a certain percentage of shipments to incur different types of costs. If an exporter experiences only those problems most frequently reported as occurring in the PSI process, the cost of PSI is an additional 1.3 percent of the average value of the inspected shipment. An estimate of the total expected cost per shipment inspected, due to PSI, for all countries is $526.72, or 1.3 percent of the value of the shipment.

- o <u>Respondents reported that inspection companies requested access to various types of information to perform the inspection, including confidential business information</u>.

The type of data most frequently requested by the inspection companies were pro formas (reported by 43 percent of the respondents), published or unpublished price lists (39 percent), ocean, air, and other freight charges (38 percent), copies of letter of credit (34 percent), and technical literature (30 percent). Other information requested by the inspection companies included packing lists, copies of bills of lading, copies of invoices, statements about commissions (agent and amount), and shipping details.

- Respondents reported that a number of practices by inspection companies frequently interfered with the shipment process.

Practices reported as most frequently interfering with shipments in 1986 were placing limitations on freight charges (reported in 2.5 percent of inspected shipments), stating a value in the Clean Report of Findings different from that stated in the import license (1.8 percent), and issuing no Clean Report of Findings even though shipment had been made (1.8 percent). Other reported practices included failure of the inspector to arrive at the appointed time and place for the physical inspection (1.5 percent), and loss of papers by the inspection company (1.1 percent).

- The commercial gauging industry, a service industry that provides quantity and quality assessments of U.S. imports and domestic shipments, has alleged that the exclusive nature of most countries' PSI contracts has the effect of giving the designated PSI company an unfair advantage in competing in the U.S. market for commercial gauging services.

Four firms control approximately 75 percent of the U.S. customs-approved commercial gauging market. Three of them are subsidiaries of foreign-based international inspection concerns. PSI contracts appear to have allowed the PSI inspection companies to "get their foot in the door" on the import and domestic side of gauging by introducing themselves to new customers via PSI work.

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- Domestic commercial gaugers reported a noticeable loss of market share to PSI inspection companies for commercial gauging services only after nations in regions outside the relatively small markets in Africa began employing PSI.

Domestic commercial gaugers claim that substantial losses of market share only became evident when certain Latin American countries introduced PSI in the mid-1980's. This was reportedly due, in part, because inspection companies with exclusive rights to supervise imports into developing nations are often hired to verify that country's exports at discharge ports in the United States. One inspection company, SGS, does have contracts with five countries--Ecuador, Guatemala, Indonesia, Paraguay, and Bolivia--to check their exports. However, these inspections are performed at the point of supply for products destined for the United States, rather than at U.S. ports where U.S. gaugers perform their business.

- <u>U.S. firms engaged in the manufacture and export of chemicals and pharmaceuticals have voiced the strongest opposition to PSI. More than 28 percent of the exporters responding to the Commission's questionnaire indicated that they exported chemicals to PSI countries. Those exports accounted for 24 percent of the value of shipments reported by questionnaire respondents</u>.

Chemicals were the second leading U.S. export to countries employing PSI, accounting for 15 percent of total U.S. exports to PSI countries in 1986. In 1986, the U.S. chemical industry manufactured or processed chemicals valued in excess of $216 billion. Of that total, nearly $23 billion, or more than 10 percent, were exported. Countries with PSI programs accounted for $2.4 billion, or about 10 percent of total U.S. chemicals exports in 1986. Of the countries that employ PSI programs, Mexico, Venezuela, Indonesia, and Ecuador were the leading markets for U.S. chemicals in 1986.

- <u>A number of concerns reported generally by U.S. exporters regarding PSI and its application in specific transactions have also been raised specifically by the chemical industry, including delays, increased costs, confidentiality problems, nonuniform application, price reviews, and lack of an appeals process</u>.

<u>Delays and increased costs</u>. Of the 117 firms that indicated in their questionnaire response that they exported chemicals to countries employing PSI, 35 cited costly delays as a primary concern. The Commission's questionnaire revealed that, in most cases, the average number of calendar days required from the time material was presented for inspection and shipment to the time the firm was able to request payment was greater for countries that require PSI than for those that do not. Estimates, made in submissions to the Commission by members of the chemical industry of additional administrative costs ranged from $100 to $700 per shipment.

<u>Confidentiality</u>. Several members of the chemical industry have indicated concern that the gathering of information by the PSI companies risks compromise of information they consider confidential. Some information requested by the inspection companies--such as prices to individual customers, details of specific contractural arrangements, product formulas, and information as to how a price was calculated--is not generally available to the public and is considered proprietary. There appears to be no contractural constraint on the PSI companies to maintain the confidentiality of the material entrusted to them.

<u>Discrimination</u>. There does not appear to be any evidence that the PSI companies intentionally discriminate either for or against the products of U.S. chemical companies. However, the exports of some major U.S. competitors in the chemicals market, such as West Germany and Switzerland, may not be subject to the same PSI procedures. This difference is due to legal restrictions in those countries on the inspection firms' access to confidential information, particularly that relating to prices.

<u>Price review</u>. PSI companies claim that they use up-to-date, market-based information that takes all relevant commercial considerations into account when developing acceptable price ranges for the chemicals industry. Nevertheless, chemical industry members allege that in practice PSI companies

do not take into account certain relevant commercial considerations when determining acceptable price ranges. They also allege that PSI companies set arbitrary limits on certain charges and use a price review procedure that is not transparent and is highly discretionary.

Chemicals accounted for approximately 22.7 percent, or $7.97 million, of the $35 million in total price reductions reported by PSI companies in 1986. According to the inspection companies, final settlement invoice prices were about 6.5 percent lower than original advisory document prices. The vast majority, about **** percent, of the PSI-related price reductions in the chemical industry involved SGS. SGS reported that out of all cases where it questioned invoice prices in 1986, exporters decreased their prices in **** percent of the cases involving African countries and **** percent of the cases involving Latin American and Caribbean countries. According to SGS, price reductions of ***, or about ***** percent from the original invoice prices, were achieved.

Lack of Review Process. Members of the chemical industry object that the formula for determining the acceptable price or price range is often not fully explained to them. They allege that the PSI company often establishes the price range arbitrarily, allowing no review process other than negotiation with that company regarding disputes. Some PSI companies have set up a review procedure, but U.S. chemical firms complain that the procedures are inadequate and time-consuming.

Chapter 3. Country Operation of PSI Programs

- The countries reviewed accounted for about 9 percent of total U.S. exports in 1986. But if U.S. exports to Mexico (where PSI programs apply only to a portion of Government purchases) were excluded from this figure, U.S. trade with the remaining countries represented about 3.4 percent of total U.S.exports in 1986.

Two PSI countries, Mexico and Venezuela, were among the United States' top 20 export markets in 1986. Six other countries--Indonesia, Ecuador, Jamaica, Nigeria, Guatemala, and Haiti--ranked among the top 60 U.S. export markets. The remaining countries individually imported 0.06 percent or less of total U.S. exports to the world.

- The eight PSI countries that were the most significant markets for U.S. exports in 1986 all adopted PSI programs in the 1980's--two in 1983, the others as recently as 1985 and 1986. Seven African nations adopted PSI programs in the 1970's.

Over a third of the countries with PSI programs began the practice in the 1970's and nearly a third more initiated PSI programs in the early 1980's. A number of other countries, mostly in Latin America, began using PSI in 1985 and 1986.

- The PSI contracts generally provide an incentive for the inspection companies to show savings. The inspection companies supply the contracting country with regular reports on savings generated due to their intervention.

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Country Operations

- Although all PSI programs share similar characteristics, PSI programs have been adapted to the specific needs of each nation.

For most of these countries, PSI is an adjunct to their foreign-exchange control system. For only one country, Indonesia, PSI replaces part of the commercial functions otherwise performed by customs services. The Mexican program is unique in that it applies only to selected imports that are purchased by the Mexican Government. In Venezuela, PSI procedures apply only if an importer seeks to obtain preferential exchange rates when buying foreign currency to pay for imports.

- Many PSI countries have trade regimes that include complex import and foreign-exchange licensing systems. In these countries, PSI is viewed as an integral part of such licensing systems, and is used to check the validity of license applications against the actual shipments involved.

Most countries have instituted PSI as part of their foreign-exchange licensing systems. PSI is nearly always linked with or integrated directly into general import licensing procedures. Oversight of the PSI program is usually delegated to the Central Bank or the ministry responsible for granting the relevant licenses. Bolivia, having recently eliminated its licensing systems, is the only major exception. Bolivian importers file applications for PSI directly with the inspection company, which then supplies copies of applications to the relevant government authorities.

- Most of the countries reviewed instituted PSI programs for the express purpose of foreign-exchange control. As a result, proof of a satisfactorily completed inspection, i.e., a Clean Report of Findings (CRF), is required to authorize the release of foreign exchange to pay for imports.

Of the 26 countries reviewed, 23 implement PSI for the purpose of supporting foreign-exchange control systems. (Mexico and Indonesia use PSI for other purposes, and the Congo did not use PSI in 1986.) PSI is aimed mainly at identifying two indicators of potential abuse: (1) whether the foreign exchange is being used for the purpose requested, and (2) whether the overall amount requested appears to be consistent with the kind and quantity of goods actually being imported.

In 2 countries, the CRF is required for payment only under certain conditions. Indonesia requires a CRF for payment only if the transaction involves a letter of credit, and Venezuela requires a CRF only if the importer wants to obtain foreign exchange at the preferential rate.

- Thirteen countries do not require PSI reports to clear goods through customs.

These countries are Angola, Burundi, Equatorial Guinea, Kenya, Madagascar, Mexico, Paraguay, Rwanda, Suriname, Tanzania, Uganda, Venezuela, and Zambia. For countries requiring proof of PSI at customs, most continue to use their own customs services to perform valuation and customs inspections and to assess and collect duties. Only in the case of Indonesia is the inspection company authorized to perform a customs valuation service.

- Twelve countries require PSI reports to clear goods through customs.

These countries are Bolivia, Ecuador, Ghana, Guatemala, Haiti, Indonesia, Ivory Coast, Jamaica, Liberia, Zaire, Nigeria, and Guinea.

- At least 12 countries provide for some sort of appeal mechanism to their authority should there be a disagreement with the inspection company's findings.

These countries are Angola, Bolivia, Guatemala, Guinea, Haiti, Indonesia, Jamaica, Liberia, Madagascar, Mexico, Paraguay, and Rwanda.

- In terms of implementing PSI, Venezuela and Nigeria are exceptions to the practice of contracting exclusively with one company to inspect their imports from all sources.

Venezuela has liscensed, rather than contracted with, three inspection companies from which importers may choose to perform PSI. Nigeria has contracted with three inspection companies and has designated each company to perform inspections in a particular region of the world.

- Haiti recently scaled back the scope of its PSI program, and Jamaica recently announced plans to allow its current contract with SGS to expire.

Haiti has reportedly narrowed the inspection requirement to a few import products such as wheat, vegetable oil, and pharmaceutical products. Jamaica announced in April 1987, that it will not renew its SGS contract when it expires in January 1988.

o Several countries also use PSI companies to inspect exports.

Countries contracting with inspection companies to inspect exports as well as imports include Ecuador, Indonesia, Paraguay, Bolivia, and Guatemala.

o For all U.S. shipments to the countries requiring PSI, U.S. exporters reported that total average cost per inspected shipment associated with PSI was $526.72, or 1.3 percent of the weighted average value of all inspected shipments in 1986.

For countries for which costs were reported by questionnaire respondents, costs associated with shipments to each PSI country in 1986 were as follows:

Country	Total average cost per inspected shipment	Cost as percent of weighted average value of inspected shipments	Cost as percent of total value of all reported shipments
Angola	$ 413.80	8.0	0.6
Boliva	445.11	4.3	1.0
Burundi	***	***	***
Ecuador	470.27	3.7	2.8
Ghana	408.73	3.7	0.2
Guatemala	580.58	2.1	1.6
Haiti	443.08	4.8	0.8
Indonesia	463.39	0.7	0.6
Ivory Coast	425.93	0.5	0.4
Jamaica	456.92	2.3	1.0
Kenya	471.91	5.4	3.2
Liberia	427.55	1.7	0.5
Mexico	431.93	2.8	*
Nigeria	490.82	0.9	0.8
Paraguay	496.81	2.8	0.2
Rwanda	417.17	2.1	1.9
Suriname	496.26	1.5	0.3
Tanzania	402.90	2.1	0.6
Uganda	411.65	2.9	2.0
Venezuela	643.18	0.8	0.6
Zaire	1,075.35	0.8	0.7
Zambia	500.61	1.0	0.9

* Less than one-tenth of 1 percent.

Chapter 4. Other Supplier Countries' Experiences With PSI

o PSI appears to be conducted in other exporting nations in a manner similar to that in the United States. However, several PSI countries do exempt the shipments of certain countries from their inspection requirement.

Importing countries providing exemptions from their PSI requirement on the basis of country of origin or supply are Burundi, Ghana, Guinea, Ivory Coast, Kenya, Tanzania, and Rwanda. The countries they exempt include their neighboring countries, certain Middle Eastern countries, and certain countries having centrally planned economies, such as the Soviet Union. The Soviet Union is the only major industrialized nation specifically exempted from PSI.

o European countries have a greater volume of trade with African PSI countries then does the United States, and their concerns with PSI are therefore more focused on nations in that region of the world.

The trade of European Community (EC) countries' with the African PSI countries accounted for 56 percent of the total EC trade with PSI countries, as compared with 7 percent of total U.S. trade with the PSI countries.

o Other supplier countries' experiences with PSI vary. Several countries report few or no problems with PSI; several countries are aware of complaints from their exporters, particularly concerning the price verification procedure and general delays; and one country has decided to regulate and limit the activities of PSI companies.

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o The price comparison procedure is generally not undertaken in nonmarket economy countries.

According to inspection companies, price comparison is omitted in non-market economy countries because their export prices are generally set by the state. PSI inspections, where required in such countries, are limited to quality, quantity, and conformity to the terms of sale.

Chapter 5. Related International Standards and U.S. Federal Control Programs

o U.S. exporters allege that PSI programs are inconsistent with the principles set forth in the GATT and other relevant international agreements.

U.S. exporters alleged that PSI programs violate GATT articles II (relating to concessions), VII, VIII, and X (customs valuation and administration), and XI and XIII (quantitative restrictions), as well as the GATT agreements (codes) on licensing, customs valuation, technical barriers to trade, and civil aircraft. Exporters argue that the costs associated with preshipment inspection impair the value of concessions negotiated under the GATT. Exporters expressed particular concern about the ability of inspection companies to reopen the pricing aspects of individual commerical contracts, often resulting in change of the negotiated price. They claimed that PSI programs are not administered in a transparent and nondiscriminatory manner, providing exporters with no clear guidelines on which to judge, prior to inspection, whether their goods or prices will pass inspection.

o The PSI companies counter that PSI procedures are fully consistent with relevant international standards. They further argue that PSI programs do not, in any case, violate any agreements since PSI countries either are not members of the GATT, have not signed the relevant GATT codes, or are experiencing foreign exchange and other difficulties that would qualify them for exemptions from the relevant international obligations.

SGS, Intertek, and Bureau Veritas asserted that PSI programs are fully consistent with various international agreements, conform to the GATT, and represent an effort by the countries employing the practice to ensure the effectiveness of foreign exchange controls. They also stated that the PSI countries have not signed the GATT codes. The PSI companies noted that the programs are generally mandated by the laws of the relevant nation, are fully transparent, and are administered in a non-discriminatory manner. The companies also claimed that the contracting countries have identified their valuation methods and indicated how the method is consistently applied. Finally, the PSI companies say they use the export market price prevailing in the ordinary course of trade to determine the value of goods, a method that they claim is fully consistent with relevant GATT standards.

INTRODUCTION

Preshipment inspections (PSI's) are currently being conducted in the United States by three private firms on behalf of 25 importing countries as a precondition for the release of foreign exchange or for customs clearance. They involve the examination of the quality and quantity of export shipments and a determination by the inspection company of whether or not the transaction value is within reasonable limits compared with the export price generally prevailing in the supplying country.

A section 301 petition, filed with the office of the United States Trade Representative (USTR) in September on behalf of four trade associations in the South Florida area, sought U.S. Government action against five Caribbean and Latin American nations (Ecuador, Guatemala, Paraguay, Jamaica, and Venezuela), which have hired or authorized private companies to perform preshipment inspection of U.S. exports to them. The petitioners alleged that PSI programs have created a major impediment to U.S. exports.

The section 301 petition was withdrawn when the USTR launched a 5-point action plan to investigate and address the alleged problems associated with the inspection programs. According to the action plan, the USTR will consult bilaterally with each country that requires these inspections, pursue multilateral solutions in the appropriate fora such as the GATT, monitor closely the activities of PSI agents within the United States and any complaints of their activities, consider possible domestic legislation or other appropriate action to limit PSI activities, and request that the U.S. International Trade Commission conduct a section 332 study of PSI practices and their effect on U.S. commerce. The 301 petitioners remain in a position to refile the case should they feel the action plan is not effective.

This report examines the operation of preshipment inspection programs in 1986. It begins with a discussion of the development of PSI programs and presents data supplied by the inspection companies on the quantity and outcome of their inspections. Chapter 2 discusses the U.S. experience under inspection programs as reported by exporters and producers in response to a Commission questionnaire, and examines the effects of PSI on two U.S. industries: customs gaugers, and chemicals manufacturing. Chapter 3 presents, on a country-by-country basis, a description of preshipment inspection programs in effect, country experiences with the programs, and an assessment of problems and costs as reported by U.S. exporters and producers in response to the Commission questionnaire. Chapter 4 discusses other developed country experiences with PSI programs, and Chapter 5 discusses related international standards and U.S. Federal control programs. A glossary of terms is presented in appendix A.

CHAPTER 1. PRESHIPMENT INSPECTION PROGRAMS

Introduction

Since the 1800's, individual exporters and importers have used independent inspections to certify the quality and quantity of products moving in international trade. Today, it is a normal practice in international commerce that cargos and products are inspected by a private company prior to shipment and after arrival in the foreign port. These inspections provide some measure of assurance for both the importer and exporter that proper quality and quantity of goods are maintained through the shipping process. Numerous private companies specializing in inspection services conduct hundreds of inspections daily, not only of industrial goods and commodities, but also of agricultural products, aircraft, ships, buildings, and even nuclear installations. Fees for the abovenoted services are paid by the purchaser and/or supplier.

The preshipment inspection (PSI) programs that are the focus of this investigation are conducted pursuant to government decrees and/or contracts negotiated between at least 25 developing country governments and several private inspection companies. Fees for these services are generally paid by the governments. The distinguishing feature of inspections performed under PSI programs is that the inspection company certifies a shipment's price as well as its quality and quantity. The PSI agreements are, in some instances, signed by various ministries of the government concerned, but in most instances, the central bank of the country is the contracting principal. For most of these countries, PSI is an adjunct to their foreign-exchange control system. For one country, Indonesia, PSI replaces part of the commercial functions otherwise performed by customs services.

Many PSI nations lack hard currency and also do not have effective customs control operations. These deficiencies are exacerbated by problems of debt, capital flight, and a high degree of fraud and corruption in their foreign trade sectors. 1/ Moreover, a number of PSI countries maintain dual or multi-tiered exchange rates. This provides importers with an incentive to take advantage of the divergence between exchange rate markets to over-invoice imports, by buying more dollars than needed to pay for imports at the lower rate then exchanging the excess in the parallel market. As noted in a report from the U.S. Embassy in Ecuador:

1/ Morgan Guaranty Trust estimates that developing nations have lost almost $200 billion through capital flight over the past decade. Morgan Guaranty Trust Co., "LDC Capital Flight," World Financial Markets (New York: March 1986), p. 13.

> When a country maintains a multi-tiered exchange rate and the spread between the rate which the central bank uses to clear trade accounts and the free market rate widens, the possibility for exchange rate arbitrage is created. Traders become exchange rate arbitragers by overinvoicing imports and underinvoicing exports. The central government suffers because overinvoicing imports drains excessive foreign exchange from the central bank, and underinvoicing exports denies the central bank foreign exchange inflows to which it is entitled by law. 1/

A commonality among the nations utilizing PSI programs as defined in this investigation is their assumption that irregularities in their trade regime could cause significant negative effects on their economic programs. Of particular concern is the loss of foreign-exchange through such deceptive or illegal trading practices as improper invoicing of imports, i.e., overinvoicing and underinvoicing. 2/

Overinvoicing is a method used by an importer to obtain an allocation of foreign-exchange from the Central Bank in excess of the correct amount due for payment of goods received from overseas suppliers. Overinvoicing may be accomplished by payment of an inflated price for imported goods, by importation of goods with a quality inferior to the quality specified in the sales contract, or by the shipment of goods in quantities less than the quantity specified in the sales contract. Underinvoicing, for customs valuation purposes, is a method used by an importer to avoid payment of the full duty on the correct valuation of goods, thereby depriving the importing country of customs revenues.

Faced with these problems and myriad other concerns surrounding their trade regimes, certain developing nations turned to private inspection companies to implement PSI programs to help control the importation of goods in general and to prevent the submission of false invoices in particular. In principle, the objective of PSI programs is not to limit or impede imports, but to determine that they are of the proper quality and quantity and priced within the prevailing export market price range. Thus, the inspection companies are retained to ensure that the appropriate amount of foreign exchange is released and/or that the appropriate customs value for duty collection purposes will be assigned.

The majority of exporters submitting comments to the United States Trade Representative (USTR) and Commission regarding PSI programs have expressed an appreciation for the need of developing countries to control their currency outflow and to institute checks to eliminate fraud. However, there is also a general sentiment that U.S. exporters should not be required by any private organization to provide confidential business information (CBI) regarding products and prices. Further, many U.S. exporters maintain that once a contract price has been freely agreed to between buyer and seller, the contract terms should be binding without further intervention by third

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1/ ***.
2/ For details on specific country reasons for utilizing PSI, see ch. 2.

parties. Moreover, exporters point out that there is ample opportunity between an in-factory inspection and final delivery for unscrupulous middlemen to manipulate containers and otherwise commit fraud if that is their intention. PSI, accordingly, would not prevent fraud under these circumstances.

The major problems and complaints associated with PSI, as reported by U.S. exporters in submissions to the Commission and in questionnaire responses, are as follows:

1. the nontransparent nature of the price verification procedure;
2. the potential adverse effects of PSI price determinations;
3. the substantial delay caused to shipments;
4. increased administrative costs; and
5. the potential for compromised CBI.

U.S. exporters also object to the tremendous control inspection companies can exert over their international transactions. Although the inspection companies contend they do not have the power to prevent a shipment, they can withhold issuance of a clean report of findings. This, exporters contend, is a powerful tool since such a report is required for payment and, in some cases, clearance through customs.

The remainder of this chapter is divided into four major parts. First, the development of PSI programs is discussed and a description of the companies performing PSI of U.S. exports is presented. Second, an analysis of PSI contracts is presented. Third, the inspection process is described. Finally, data supplied by the inspection companies concerning their inspections and reports of findings are presented.

PSI Program Development

The development of country PSI programs as defined in the context of this investigation, began in 1963 when Zaire, newly independent from Belgium, requested that Societe Generale de Surveillance, S.A. (SGS), a Swiss inspection company, help it conserve its limited foreign exchange by monitoring its imports. In response, SGS developed an import supervision service for developing nations that included a price-verification procedure in addition to a physical inspection for quality and quantity control. The program, "Comprehensive Import Supervision Service" (CISS), was initiated in Zaire in 1968 and spread to other African nations during the 1970's. The practice of PSI spread rapidly among developing nations in other parts of the world. By the early 1980's, CISS had been adopted in varying forms by nations in Latin America and Central America as well. Six nations began their PSI programs in 1986. (See table 1-1 for a list of countries using PSI programs.) Generally, the African programs are the oldest, the Indonesian program is the largest, and the Latin American and Central American programs are the most recently implemented.

Table 1-1.--Countries using preshipment inspection programs, as of December 1986

ountry	Starting date	Inspection company 1/
ngola	March 1980	SGS
olivia	August 1986	SGS
urundi	July 1978	SGS
ongo 2/	May 1987	Socotec
cuador	March 1985	SGS
quatorial Guinea	January 1983	SGS
hana	July 1971	SGS
uatemala	September 1986	SGS
uinea	January 1986	BV
aiti	December 1983	SGS
ndonesia	May 1985	SGS
vory Coast	July 1975	SGS
amaica	January 1986	SGS
enya	December 1972	SGS
iberia	April 1986	SGS
adagascar	July 1983	SGS
exico 3/	May 1985	SGS
igeria	November 1984	Intertek
araguay	September 1983	SGS
hilippines 4/	May 1986	SGS
wanda	April 1977	SGS
uriname	January 1982	SGS
anzania 5/	December 1972	SGS
ganda	July 1982	SGS
enezuela	June 1986	SGS, BV, Intertek
aire	October 1968	SGS
ambia	January 1978	SGS

/ SGS is SGS Control Services, Inc.; BV is Bureau Veritas; and Intertek is ntertek Services International, Ltd. A discussion of these companies is resented in the following section.
/ At the start of this study, the Commission received reports that the Congo mplemented a PSI program. Subsequent investigation revealed that the Congo id not perform PSI of U.S. exports in 1986, but began a program effective May 987. The program is conducted by Socotec, a Swiss company.
/ Mexico has a limited program that applies only to imports purchased by gencies of the Mexican Government. These agencies may formally waive the PSI equirements in particular cases.
/ The Philippines has a customs-oriented CISS program that is limited to nspections of imports from Japan, South Korea, Hong Kong, Taiwan, Singapore, ndonesia, Thailand, Malaysia, and Brunei only.
/ Tanzania includes Zanzibar. Inspection of imports to Zanzibar began eptember 1982.

Inspection Companies

In 1986, three private companies conducted preshipment inspections in the United States on behalf of the countries listed in table 1-1: (1) SGS Control Services, Inc., the U.S. affiliate of the Swiss firm Societe Generale de Surveillance; (2) Bureau Veritas; and (3) Intertek Services International, Ltd. Generally, the contracting principal in the importing country pays the inspection company the fees associated with the inspection. Fees paid to the inspection companies to fulfill the terms of the PSI contracts are generally required in hard currency and are based on a percentage (usually 1 to 2 percent) of the f.o.b. value of the goods inspected. Depending on a country's level of trade, these fees can be substantial. The inspection companies report periodically to their contracting principals, identifying savings resulting from their intervention through the PSI process. These reports can be used by countries utilizing PSI programs to determine if the fees are balanced by the savings generated by the programs. However, one company, Essex Exports Corp., has documented three separate instances where an inspection company, SGS, identified savings to a country (Jamaica) that did not occur. 1/ The total value of savings reported erroneously to Jamaica in the three instances was ***. 2/

SGS Control Services, Inc.

The Geneva-based SGS group is the largest private inspection and testing company in the world and has provided various inspection services for over 100 years. The group is represented by over 130 affiliated companies located in more than 140 countries. As the pioneer developer of PSI Services, SGS has contracts with, or is licensed by, 23 of the 25 countries that require preshipment inspection of U.S. exports. SGS North America is the umbrella organization for the group of affiliates and their subdivisions located in the United States. SGS Control Services, Inc., administers the group's preshipment inspections of U.S. exports. 3/

1/ Testimony of Manuel Ardois, vice President, Essex Exports, Hearing, Mar. 3, 1987, Miami, FL. Official transcript pp. 386-7. Documentation provided in and submission to the Commission by Essex Exports, Mar. 6, 1987.

2/ ***.

3/ Member companies of SGS North America include SGS Control Services; Commercial Testing and Engineering Co.; Norman Reitman Co.; United States Testing Co.; and Marshall and Stevens, Inc.

Intertek Services International, Ltd. (Intertek)

Intertek is a Virginia corporation with principal corporate offices located in Fairfax, VA, and a branch office located in Miami, FL. Intertek performs CISS services for Venezuela in conjunction with its affiliate Caleb Brett International, a British company. Inspections for Nigeria are performed in conjunction with a joint-venture partner, Swede Control. Venezuela and Nigeria are the only two countries for which Intertek conducts PSI programs.

Intertek's sister corporation, Intertek Services Corp., provides a variety of commercial inspection services in the United States and other countries. Both Intertek and Intertek Services Corp. were purchased in 1986 by Inchcape PLC, a United Kingdom-based corporation.

Bureau Veritas

Bureau Veritas, established in 1828, is a French company providing inspection and other services worldwide. It has a staff of over 3,000 persons. In May 1986, Bureau Veritas became one of three competing inspection companies authorized by the Government of Venezuela to provide private PSI services to Venezuelan importers seeking to take advantage of Venezuela's program of preferential exchange incentives. Venezuela and Guinea are the only countries for which Bureau Veritas conducts PSI programs.

General Nature of Country Contracts 1/

The Commission requested that SGS and the other inspection companies furnish copies of their contracts for inspection services with governments of individual countries. The Commission received copies of 11 contracts representing contractual agreements between inspection firms and the governments of 11 of the 24 countries that have contractual arrangements. (The 25th country, Venezuela, does not have an exclusive contract with an inspection company, but instead licenses firms (currently three) to perform such services in conformity with Government regulations.) According to SGS, which has contractual relationships with 23 of the 24 countries, the remaining contracts are considered confidential by the respective governments, and the governments have not authorized the release of the contracts. Two of the contracts, with Ecuador and Guatemala, are public documents.

***. All 11 were similar in scope, and were largely similar in format. ***.

1/ For details of individual country programs, see Ch. 3.

***. The contracts with ***, Ecuador, and Guatemala differed in several respects, including the fact that they provided for the inspection of exports from these countries as well as imports.

The contracts covered at least 14 basic topics--(1) the purpose of the contract, (2) the nature and scope of the inspection services to be rendered (e.g., place, type of examination, and scope of intervention), (3) obligations regarding comparison of prices, (4) obligations of the contracting government, (5) identification of the goods to be subject to inspection and the goods to be exempt, (6) special procedures regarding inspections of goods from certain countries (e.g., nonmarket economy countries (NME's), for which price comparisons are more difficult), (7) exempt transactions (e.g., under a minimum value), (8) reporting requirements, (9) implementation (i.e., obligations of the inspection company and vendors), (10) fees and other charges, (11) method of payment, (12) liability, (13) resolution of disputes between the contractor and government, and (14) term of the contract. These basic provisions are discussed in greater detail below.

Purpose of contract

Contracts with three of the countries (***, Ecuador, and Guatemala) contain a statement of purpose in the beginning of the contract. For example, the contract with Ecuador states--

> The object of this contract is to render technical services leading to the elimination of overcharging of import invoices, undercharging of export invoices, illegal costs in charter fees and also to eliminate and fight against unlawful imports and exports and to improve fiscal collection. (Par. 1)

Nature and scope of the inspection service

All of the contracts addressed the question of the inspection services to be performed. In general, they provided that the inspection company (a) would inspect all goods to be imported, (b) such inspections would take place at the site of production, warehousing, and/or shipment, (c) the scope of intervention (e.g., visual inspection, testing, etc.) would be left to the inspecting company, and (d) the inspecting company would not inspect goods arriving into the contracting country. The inspection would consist of a physical examination (visual and otherwise) and, when necessary, an inspection of other characteristics, as through tests. 1/ Several specifically provided an exception in cases of force majeure, such as strikes, civil disobedience, and public disasters. 2/

1/ ***.
2/ E.g., agreements with Ecuador and Guatemala.

Pricing

All of the contracts provide for pricing comparisons. All are quite similar. The *** contract with *** describes the pricing comparison as follows--

> Along with the qualitative and quantitative inspection *** shall compare the prices of the goods in order to determine, on the basis of available information, whether the FOB price and other elements of the price, especially freight, charged in commercial transactions with *** correspond, within reasonable limits, to the prices generally charged in the supplier country.
>
> As part of the price comparison, *** shall identify repatriable commissions payable to recipients in the ***.
>
> In countries where the price comparison is subject to legal restrictions, *** shall provide this service in accordance with the laws in force in these countries. 1/

The term "within reasonable limits" is standard to most of the contracts. At least one agreement, that with Ecuador, extends the price comparison to prices in the international market.

Some agreements are quite detailed with regard to the factors that the contractor is to take into account in making the price comparison. For example, the agreement with Guatemala requires that the following elements, among others, be taken into account--

> confirmation commissions, purchase commissions, finance charges, interest, insurance premiums, transportation expenses, market information from commercial sources, public market reports, official quotations, price lists of manufacturers and vendors, commercial practices and customs, similar invoices or contracts of the vendor and price lists of other manufacturers or vendors. (Clause 8.)

Government obligations

Most of the agreements contained provisions obligating the contracting governments to safeguard information or take certain actions that would facilitate operation of the inspection program. Most stated that the contracting government would consider information in documents issued by the inspecting company to be "private and confidential" and that the government would not use such information in taking disciplinary or other actions against third parties insofar as not already provided for by national law. 2/ Most obligated the contracting government to establish and/or publish the

1/ ***.
2/ ***.

regulations that would govern the conduct of the inspecting company 1/, but at least one (with Ecuador) did not contain such a provision. The contract *** provided only that the country would publish notification of the PSI arrangement. Several obligated the contracting government to facilitate the issuance of visas and other documents needed by the inspecting company in the performance of its duties in the local country. 2/

Goods covered

All the agreements described the goods to be covered and made provision for excepted categories. In general, all goods are subject to quantity and quality inspections and price comparisons except gold, precious stones, and objects of art; explosives and pyrotechnic products; arms, ammunition, weapons, and implements of war; live animals; fresh, chilled or frozen fruits and vegetables; scrap metals; household and personal effects, including used motor vehicles; parcel post; and samples. 3/ Several agreements exempt petroleum and its byproducts, 4/ and at least one agreement exempts imports that are the subject of competitive bidding, public auction, or other procedures in which private entities and semipublic enterprises participate. 5/ In most contracts, the inspection company is given the right to accept or refuse requests for intervention with respect to secondhand or used goods. 6/ Several contracts limit the obligations of the inspection company to quantity inspection and price comparison (but not quality inspection) in the case of pharmaceutical products, dyestuffs, paints,

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1/ ***.

2/ See, for example, the SGS agreement with Guatemala (clause 31).

3/ See, for example, the *** agreement with ***. The actual descriptions differed considerably from agreement to agreement. For example, the *** agreement exempts fresh, chilled, or frozen fruits and vegetables, but the *** agreement exempts perishable goods and foods (par. 14). *** agreement with *** exempts periodicals, books, magazines, and other printed material but apparently not all parcel post (par. 14). SGS's agreement with Guatemala specifically exempts periodicals and magazines but apparently not books, other printed matter, and not all parcel post (clause 14).

Some articles were wholly exempt from inspection under some agreements but only partially under others. For example, live animals are exempt under the *** agreement, but the *** agreement requires verification of numbers but not quality, and does not require a price comparison (clause 14).

4/ See, for example, the agreements with *** and ***. *** exempts imports and exports between governments of petroleum and its byproducts (par. 14).

5/ ***.

6/ ***.

insecticides, special chemicals, cosmetics, wines and spirits, and similar goods. 1/

Several contracts also specifically exempt from inspection donations, supplies for diplomatic and consular missions, and supplies for agencies of the United Nations. 2/ At least one exempts, at least from price comparison, goods purchased from a foreign government, or agency of a foreign government. 3/

Countries covered

In general, the contracts require intervention with respect to goods imported from all countries. Most, however, make some exceptions. Several permit the inspection company to refuse to intervene with respect to comparison of prices when price comparison is impractical, as in the case of countries with a centrally planned economy (e.g., Communist countries). 4/ Some contracts contain actual lists of countries; others leave the matter to the discretion of the inspecting company. 5/ One country, ***, completely exempts all countries having a common border, certain other African countries, and certain Communist countries. *** partially exempts certain other African and Communist countries.

In the case of restrictions on inspections in the country of export, several contracts specifically limit the intervention required to that permitted by law in the country of export. 6/

Value of transactions covered

Most contracts set a minimum transaction value for shipments to be inspected. Several set the minimum in terms of national currencies (e.g., ***) or U.S. dollars (US $5,000 in the case of ***). At least one contract *** leaves the matter open to determination at a later date.

1/ See, for example, the agreements with ***; and ***. In addition, the *** agreement requires *** to check the expiry date on pharmaceutical products ***. The agreement with Guatemala provides only for verification of quantity with respect to chemical products with patented formulas, since such chemicals cannot be inspected "because of secrecy" (clause 14).

2/ ***.

3/ ***.

4/ ***.

5/ For example, the agreements with *** contain country lists; the agreement with *** does not.

6/ ***.

Reporting

All of the contracts require the inspection company to report on its interventions. In general, the contracts provide for the issuance by the inspection company of a "Certificate of Inspection" or a "Clean Report of Findings" (or similarly named document) when the intervention leads to a satisfactory conclusion, and issuance of a "Notice of Non-Certification" or a "Non-Negotiable Report of Findings" (or similarly named document) when the intervention reveals discrepancies. 1/ Most contracts provide that the original of the certificate or notice is to be given to the vendor and a copy is to be sent to the government of the importing country. 2/ In most instances, a certificate cannot be issued until the vendor has provided the inspection company with a final invoice for the goods. 3/

Most contracts require the inspection company to describe any discrepancies in the notice of non-certification. A copy of the notice is transmitted to the government of the importing country for a determination as to what if any further action is appropriate. However, the inspection company may subsequently issue a certification of inspection if the vendor makes the necessary adjustments. 4/

Most contracts also require the inspection company to submit quarterly summaries of foreign-exchange savings, repatriable commissions, irregularities in quality and quantity, and notices of non-certification issued. 5/ However, at least one agreement (with Guatemala) requires bi-monthly reports, 6/ and a second *** requires submission of reports "periodically." 7/

Implementation

Most of the contracts contain an "implementation" section that requires the contracting governments to publish certain regulations, issue certain documents, and impose certain requirements on importers in order to facilitate the inspections process. The contracts with *** and with *** tend to be more detailed in this regard.

In general, the contracts require the contracting government to publish regulations that set out the requirements to be completed with respect to the goods imported into that particular country. 8/

1/ ***. Names for the report of findings may vary depending on the translation and term preferred by the contracting government.
2/ ***.
3/ ***.
4/ ***.
5/ ***.
6/ ***.
7/ ***.
8/ ***.

The contracts require the government to furnish an "inspection order" to the inspection company's representative in the exporting country that sets forth the basic details of the transaction, including the value, method of payment, and time and means of delivery. 1/ In addition, the contracts generally require the contracting governments to impose certain requirements on vendors--e.g., to require vendors to submit a clean report of findings (or similar document, depending on the contract) as a precondition to entry of their goods, and to require that vendors give the inspection company at least 10 days notice prior to the requested inspection, provide the relevant invoice documents and "any other document relevant to the transaction which the Company may deem necessary to the execution of its inspection," provide the facilities for such inspection, and so forth. 2/

Fees

All of the contracts address, to some degree, the fees to be paid to the inspection company for its services by the government of the country of importation. Fees are generally based on the value of the transaction. In the five instances in which fee information was actually set forth in the contracts provided, such fees ranged from *** percent to as high as *** percent of the value of the transaction. 3/ Fee rates tend to vary with the value of the transaction (in at least two instances, a lower rate applies to transactions exceeding a given amount) 4/ and the extent to which the inspection company is subject to local taxation on its receipt of such fees and other income associated with its inspection operations. 5/ Several

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1/ ***.
2/ ***.
3/ The agreement with Ecuador provides for a fee of 1.75 percent ad valorem (par. 16).
4/ ***.
5/ For example, the agreement with Ecuador provides that the inspection company "binds itself to pay the corresponding income tax. For that purpose, the Bank (Banco Central del Ecuador, which makes the fee payments) will act as withholding agent . . ." (par. 16). ***.

contracts also specified minimum fees for small transactions 1/ and, as noted above, several contracts exempt small transactions from the inspection process. ***. 2/

Method of payment

All of the contracts directly or indirectly addressed the issue of the method of payment. At least six of the contracts specifically required the respective governments to open an irrevocable, renewable, and revolving letter of credit in a Swiss bank in amounts ranging from *** to *** and, in one case ***, in favor of the inspection company. 3/ In general, drawings on the accounts are made monthly upon the presentation by the inspection company of a bill for fees corresponding to services provided under the contract. 4/ One contract, with Guatemala, provides that payment would be made on the basis of invoices submitted semimonthly, with the Bank of Guatemala to make payment within 30 days; 5/ and a second, with Ecuador, provides that the Central Bank of Ecuador would maintain "enough" funds in a "first class bank abroad" to cover invoices corresponding to inspection for a term of at least 6 months. 6/

Liability

Most of the agreements contain a liability clause. The clause generally limits the liability of the inspection company "to the exercise of reasonable care" and provides that such liability will in no case exceed the amount of the fees collected for the inspection of the shipment in question. 7/ The clause also generally states that the services provided by the inspection company in no way release vendors from their contractual obligations. 8/

1/ For example, the contract with Guatemala calls for a minimum fee of US $130 on imports and US $39 on exports (clause 22), ***.

2/ The contract with Ecuador provides for a fee of 1.75 percent ad valorem on imports, but 1.45 percent ad valorem on exports (para. 16); the contract with Guatemala provides for a fee of 1.299 percent ad valorem on imports, but 1.039 percent on exports (clause 20); ***.

3/ ***.

4/ ***.

5/ Agreement with Guatemala (clause 23).

6/ Agreement with Ecuador (pt. 18).

7/ ***.

8/ ***.

Resolution of disputes

All of the contracts contain provisions providing for the resolution of disputes between the inspection company and contracting government entity, generally in the form of binding arbitration. Eight of the contracts provide for arbitration, generally by a court of arbitration comprised of three members, with such arbitration to be conducted in accord with the Conciliation and Arbitration Regulation of the International Chamber of Commerce but with the law of the contracting country to apply. 1/ The agreements with *** and Ecuador provide that differences are to be resolved by the courts and under the laws of the respective countries. 2/

Duration of contract

All of the agreements contain provisions regarding the term of the agreement and renewal. Each contract covers a term of 1 year, 18 months, or 2 years, and most are automatically renewable for a like period.

The Inspection Process

The PSI programs most frequently encountered by U.S. exporters are performed by SGS under its CISS programs, however, the procedures are generally the same for both Intertek and Bureau Veritas PSI programs as well.

The principal features of CISS are to provide the following:

- PSI of the quality of a shipment;
- PSI of the quantity of a shipment;
- assurance of conformity to contractual specifications; and
- verification of the price of goods.
- By means of a published regulation, the importing nation makes the Report of Findings issued by the inspection company a compulsory document for supporting payment of imports and, in some cases, clearance through customs.

Although all PSI programs share the above characteristics, it is important to note that all PSI programs are not the same. 3/ PSI programs have been adapted to the specific needs of a nation resulting in several distinguishing characteristics. Indonesia, for example, has a customs-oriented program that, in addition to normal CISS requirements, requires the inspection company to verify the customs code number as declared by the exporter and the correct import duty tariff and sales tax. 4/ The Mexican program is unique in that it applies only to selected imports that are

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1/ ***.
2/ Agreement with *** and agreement with Ecuador (par. 25).
3/ SGS also provides a service similar to CISS for exports called "Comprehensive Export Supervision Service" (CESS). CESS has recently been introduced in Ecuador, Indonesia, Paraguay, Bolivia, and Guatemala. The stated purpose of CESS is to prevent the underdeclaration of exports thereby ensuring that export levies are collected, to prevent the export of prohibited or restricted goods, and to prevent the export of defective goods.
4/ For specific details on Indonesia's program, see ch. 3.

purchased by the Mexican Government. Thus, its primary purpose is to control the expenditure of public funds. 1/ In Venezuela, PSI procedures apply only when an importer seeks to obtain preferential exchange rates when buying foreign currency to pay for imports. The Venezuelan Government has no contract with a particular inspection company but instead has licensed three inspection companies to compete for business from importers. 2/

The inspection of a proposed shipment is generally bifurcated into the quality/quantity physical inspection and the price verification procedure. The physical inspection is conducted for every transaction and is essentially an audit function to determine if the goods comply with the quantity and quality specifications required by the buyer, as stipulated in the import documentation.

Physical inspections for chemicals vary in accordance with the type and form of the product. Generally, the PSI contracts provide that quality inspections are not required of pharmaceutical products, dyestuffs, paints, branded crop protection chemicals and insecticides, special chemicals, cosmetics, wines (other than in bulk) and spiritous liquor, and similar goods. 3/ Chemicals that are exempted from quality inspections pursuant to this provision make up about one-fourth of the dollar volume and more than one-half of shipments of all chemicals that are exported from the United States and subject to PSI. 4/ Although exempted from the quality inspection, these products are still subject to the physical inspection to ensure they comply with the quantity specifications.

The price-verification procedure is, according to submissions to the Commission record and responses to the exporters' questionnaire, the most contentious aspect of the PSI process. Exporters argue that, based on the inspection companies "subjective" standards, export prices can be rejected even where there is no suggestion of overinvoicing or underinvoicing, hidden fees, or other illegitimate activity. The price-verification procedure involves determination by the inspection company of "prevailing export price"--actually a range of prices--based on the inspection company's assessment of market prices. The price declared on the invoice is then compared with the prevailing export market price to "form an independent opinion on the foreign exchange outlay involved in the import of goods described in the inspection order, and to establish whether the seller's invoice is, within reasonable limits, in line with the prevailing export market price. The judgement on whether the foreign exchange outlay is justified is done by means of comparison of the proposed contract with export transactions for the same or similar goods from the country of origin of supply." 5/

1/ For specific details of Mexico's program, see ch. 3.
2/ For specific details of Venezuela's program, see ch. 3.
3/ SGS Control Services, "Pre-shipment inspections of chemicals by SGS Control Services, Inc., in the United States," Apr. 24, 1987, p. 21. A "special chemical" is defined as any chemical product not included under cosmetics, dyestuffs, paints, crop protection chemicals or insecticides, and not used in any pharmaceutical or medicinal preparations that is covered by a brand name or confidential formula and is unique to a specific manufacturer.
4/ Ibid.
5/ SGS Control Services, Inc., "Price Comparisons for Pre-shipment Inspection Programs," 1987, p. 2.

Steps in the PSI process

The PSI process does not always function smoothly. Problems with PSI, as reported by U.S. exporters, are discussed in chapters 2 and 3. This section discusses the theorectical operation of a PSI program if all elements functioned smoothly. Figure 1-1 shows the typical flow of documentation under SGS implementation of a CISS program. Generally, PSI contracts specify that the physical inspection must be performed within 7 to 10 days following notification by exporter. After all other steps in the process are completed, the Report of Findings should be issued within 3 working days after receipt of all necessary final documents. As mentioned previously, procedures for Bureau Veritas and Intertek are similiar. The steps are described below.

1. Notification of inspection

The exporter's pro forma invoice, specifying f.o.b. value, freight, insurance, and any other relevant charges, is used by the importer to obtain an import license and authorization for foreign-exchange funds. This license specifies that the import has been approved, subject to satisfactory completion of the PSI.

Normally, the inspection company receives a copy of the import license, foreign-exchange allocation license, letter of credit, or other written advisory document, and this constitutes an instruction to inspect the shipment on behalf of the contracting principal. 1/ The exporter may also initiate the inspection by requesting that the inspection company inspect the shipment before advisory documents are received from the importing nation. However, because the Report of Findings requires the inclusion of reference numbers and other details from the advisory document, the inspection company must receive a copy of the advisory document before it can complete its report.

The inspection company forwards to the exporter a request for information and documents to be supplied for the inspection. Typical documents that may be requested include the following:

a. Seller's offer
b. Buyer's order/indent
c. Seller's sales note/confirmation of sale
d. Seller's published standard conditions of sale
e. Sales contract
f. Manufacturer's technical specifications
g. Analysis reports, work certificates
h. Seller's pro forma invoice
i. Purchasing agent's order placed on manufacturers in case of commission agents
j. Supplier's invoice to a buying agent charging commission
k. Agency contracts/representatives' agreements
l. Manufacturer's published export pricelists

1/ The advisory document will include a reference number supplied by the importing country, and will specify details of the quality, quantity, and price of the goods, the name and address of the buyer and seller of record, and the country of sale. Attached to the advisory document will be a copy of the pro forma invoice and other supporting documents.

Figure 1-1.--SGS Comprehensive Import Supervision Service Workflow Diagram,

* * * * * * *

Source: ***

m. Seller's published export pricelists
n. Published sales brochures/catalogs
o. Seller's declaration in respect of commissions payable
p. Buying agent agreement
q. Final invoice
r. Packing list
s. Title of transport/bill of lading/air waybill

. Preliminary price verification procedure

A preliminary price comparison begins when the inspection company receives otice of the proposed shipment. The advisory document is used to determine the eference date for which price comparison is undertaken. Within a certain range of iscrepancy some price changes may be approved after the pro forma invoice date. owever, as noted by Dr. Irene Meister, vice president, International American aper Institute, "by freezing the acceptable price for a transaction as of the date n which the pro forma invoice is presented, completely disregards the fact that rices can and do change in the marketplace in the several months it usually takes etween the pro forma invoice being accepted and final approval of the shipment. ndeed, prices can move in a matter of days, either up or down." 1/

The inspection company identifies the range of prices (see details below) that onstitute the prevailing export market price on the reference date and compares he base export price (generally the f.o.b. price) of the goods with that range. f the price is higher than the range, the seller is invited to submit further nformation justifying the price. In the context of customs valuation, principally nvolving exports to Indonesia, where invoice value is below prevailing export arket price, the seller is not contacted to revise prices. Instead, the nspection company reports its determination of what the dutiable value should be nd the importer is responsible for paying the increased duty. Several guidelines overn application of the price verification procedure:

a. The actual price comparison is made by comparing the invoice price to the revailing export market range. This range may be determined by information from a umber of sources including the following:

- Market information directly available from commercial sources
- Published market reports
- Publications of trade associations
- Government publications
- Manufacturers/sellers pricelist
- Terms and conditions of sale
- Comparable current invoices/current sales contracts on seller files
- Comparable current pricelists, or invoices from other relevant sources.

b. There is no specific formula used in performing price comparisons.

he process depends on the product and various factors are taken into onsideration such as market trends, type of seller (manufacturer,

1/ Testimony presented by Dr. Meister at Apr. 14, 1987, Hearing, Washington, C.

distributor, trade, etc.), delivery time, quality, and quantity (including quantity discounts).

c. Price comparisons for brand name goods is limited to a review of the export prices prevailing for the particular branded good. For generic products, the prevailing export market price is determined by reference to the prices prevailing among different sellers of that particular product.

d. Although sellers may believe approval of their price is implicit in the granting of an import license, prices shown in the foreign-exchange license, letters of credit, or other advisory documents are as declared by the importer and do not imply acceptance by the importing country. A copy of the license (or equivalent advisory document) is therefore transmitted to the inspection company for the express purpose of price comparisons. The issuance of the Report of Findings reflects the inspection company's final conclusion as regards to acceptability of price.

e. The total price indicated in the advisory document is not an absolute ceiling. Increases in price may be accepted if the reasons are fully documented, the reasons are determined to be commercially justified, and the excess remains within any limits set by the PSI country. The quantity of goods indicated in the order, however, is considered an absolute ceiling, subject only to increases that are within normal commercial tolerances.

f. Approval of a price above the prevailing export market price may be justified based on the following factors:

- Delivery period
- Delivery conditions
- Whether price quoted is firm or subject to specified fluctuations
- Quality specifications
- Shipping/packing specifications
- Standard or special unit packing (type and size)
- Order size
- Current or obsolete product
- Currency fluctuations
- Spot sales (these may command premiums or may render discounts, depending on the market situation at time of sale)
- Seasonal influences
- Market factors relevant to the country of importation.

g. When the importing country has set limits on fees for certain ancillary charges, the inspection company will not issue a Clean Report of Findings to cover invoices that include ancillary charges that exceed such limits. Examples of ancillary charges includes confirming commissions, buying commissions, interest or other financing charges, transport insurance premiums, and export credit guarantee premiums. A few PSI countries prohibit buying commissions outright. The price comparison procedure is particularly intended to establish an acceptable price net of ancillary charges.

h. Freight is viewed by the inspection companies as a price element that lends itself to unjustified charges or commissions, and is particularly scrutinized during the inspection process.

i. Generally, the following charges are disallowed by the inspection ompanies: anticipated port demurrage charges at destinations; charges for aftersale" services when these are already considered in the export price, or hen it is the normal practice of the trade to invoice these separately; and ncontracted documentary charges (including opening and confirming letters of redit). Charges not allowed unless authorized by the importing nations nclude interest for delayed payment transfers and uncontracted insurance remiums that duplicate insurance provided by the importers.

j. According to the inspection companies, price comparison is never made etween export prices prevailing in different countries unless the goods have commercially recognized, internationally quoted world market price. xamples of such products are cement and fertilizer.

. Physical inspection

The exporter notifies the inspection company when and where the physical nspection is to take place. Inspections are usually conducted just prior to oading for export. On some items, inspectors may also be instructed to itness loading. The inspector examines the goods to verify that they conform o the import documents and may take samples for the purpose of analysis. hotographs may be taken to record the external condition and marking of hipments, or may be used to assist in identifying a product and applying the elevant customs classification. Any discrepancies noted during the nspection should be brought to the attention of the exporter for immediate orrection. If necessary, a second inspection may be required to verify that discrepancy has been corrected. The inspector submits his report to the ppropriate field office; the exporter is then notified of the results.

. Submission of final documents

Following completion of the physical inspection and preliminary price erification procedure, the exporter provides the inspection company with all inal documents required for shipment:

- Final invoice
- Packing list
- A copy of the original air waybill or the bill of lading (B/L) certified by the shipping company, or a nonnegotiable signed copy may be submitted.

. Final price comparison

The final price comparison procedure begins when the inspection company as received all the requested documentation. If no question remains nresolved from the preliminary price comparison, or after the physical nspection, a Report of Findings can be issued.

6. Issuance of Report of Findings

A Report of Findings is issued by the inspection company reflecting its conclusions regarding price and compliance with quality and quantity requirements. Since the Air Way bill or B/L is a required document, the Report of Findings cannot be issued until after the goods are loaded for transport. A Clean Report of Findings (CRF) is normally issued when the inspection company has determined that the shipment is acceptable as to quality, quantity, and price. A Non-negotiable Report of Findings (NNRF) is issued when there are unresolved problems regarding the quality, quantity, or price of a shipment. Unless a CRF is issued, authorities in the importing nation will normally not release the foreign exchange to pay for the goods. In some countries, imports are not allowed to clear customs without the CRF. When an NNRF is issued, a seller may eventually succeed in obtaining payment under these circumstances (e.g., through appeal to importing country authorities), but it is unusual to do so.

Inspection Company Data on Preshipment Inspection of U.S. Exports

Tables 1-2 and 1-3 are based on information supplied by the three PSI companies in response to a Commission questionnaire for companies performing inspections of U.S. exports in 1986.

The total f.o.b. value of U.S. exports inspected, by Standard International Trade Classification (SITC) number, by company and by country or region is reported in table 1-2. According to representatives of SGS, data by individual country are not maintained in the United States, so that data are provided by region only (this holds for subsequent tables also). Bureau Veritas entries are estimates in this table. Over one-third of the value of exports inspected is found to consist of machinery and transport equipment. Nearly one-fifth consists of chemical and related products.

Although the inspection companies reported less than $3 billion in U.S. exports inspected in 1986, Commerce Department data show that total U.S. exports to countries requiring PSI totaled over $19 billion. A sample of exporters indicated that roughly one-half of the value of all shipments to the 26 countries were inspected.

As shown in table 1-3, less than 1 percent of shipments inspected failed to receive a Clean Report of Findings. This is consistent with information supplied by exporters responding to a Commission questionnaire for U.S. exporters and producers. (See ch. 3 for detailed data from the exporters' questionnaire responses.)

The market shares computed in table 1-4 were derived from data supplied in tables 1-2 and 1-3.

* * * * *

Data on 1986 revenues for the inspection companies were not available, so a conventional measure of market share is not included here.

Table 1-2--Total value of U.S. exports inspected, by Standard International Trade Classification (SITC) No., 1986 1/

(in thousands dollars)

Inspection company and region or country	SITC Number -- 0	1	2	3	4	5	6	7	8	9	Total
SGS:											
Asia and Africa....	***	***	***	***	***	***	***	***	***	***	***
Latin America and Caribbean........	***	***	***	***	***	***	***	***	***	***	***
Intertek:											
Nigeria............	***	***	***	***	***	***	***	***	***	***	***
Venezuela..........	***	***	***	***	***	***	***	***	***	***	***
Bureau Veritas:											
Guinea.............	***	***	***	***	***	***	***	***	***	***	***
Venezuela..........	***	***	***	***	***	***	***	***	***	***	***
Total..........	***	***	***	***	***	***	***	***	***	***	***

1/ SITC commodity categories follow:
Sec. 0: Food and live animals used chiefly for food.
Sec. 1: Beverages and tobacco.
Sec. 2: Crude materials (inedible), except fuels.
Sec. 3: Mineral fuels, lubricants, and related materials.
Sec. 4: Animal and vegetable oils, fats, and waxes.
Sec. 5: Chemicals and related products, n.e.s.
Sec. 6: Manufactured goods, classified chiefly by material.
Sec. 7: Machinery and transport equipment.
Sec. 8: Miscellaneous manufactured articles.
Sec. 9: Commodities and transactions not classified elsewhere in the SITC.

Source: Compiled from data supplied by the inspection companies in response to a Commission questionnaire.

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Table 1-3.--Total shipments inspected, by inspection companies, by countries or regions, 1986

Inspection Company and Country or region	Total Number of shipments inspected	Receiving Clean Report of Findings	Receiving Non-negotiable Report of Findings
		Percent	Percent
SGS................	***	***	***
Asia and Africa..	***	***	***
Latin America and Caribbean.	***	***	***
Intertek...........	***	***	***
Nigeria..........	***	***	***
Venezuela........	***	***	***
Bureau Veritas.....	***	***	***
Venezuela........	***	***	***
Guinea...........	***	***	***
Total.........	***	***	***

1/ ***.
2/ ***.

Source: Compiled from data supplied by the inspection companies in response to a Commission questionnaire.

Table 1-4.--Market shares, by companies, 1986

Inspection company Region or country	No. of countries served by each company	Total value of shipments inspected by each company	Total shipments inspected by each company
		Percent	Percent
SGS...............	23	***	***
		***	***
Intertek..........	2	***	***
		***	***
Bureau Veritas....	2	***	***
		***	***
Total.........	-	***	***
		***	***

Source: Compiled from data supplied by the inspection companies in response to a Commission questionnaire.

Table 1-5 shows that all three inspection companies questioned invoice ice more often than product quality. The inspection companies reported a zable percentage of instances in which invoice price was questioned and in ich the exporter, as a result, decreased the transaction price (see tables 5 and 1-6). This is in marked contrast to the much smaller percentages dicated by the sample of exporters (see chapter 2). The inspection mpanies report (table 1-6) that very rarely did an exporter cancel an order, receive a Non-Negotiable Report of Findings, following a questioning of ice by the inspection company. Transactions almost invariably proceeded, though often at a reduced price.

As a percent of the value of inspected shipments, lost revenues as a sult of price reductions reported by the sample of exporters were less than e foreign exchange savings as a result of price reductions reported by spection companies (table 1-7). Exporters claimed that lost revenues as a are of total value of all shipments inspected was about 0.23 percent, ereas the roughly $35 million difference between the final two columns in ble 1-7 is about 1.22 percent of the total value of shipments reported spected by the three companies. (The inspection companies also claim gnificant further savings from "deterrence.")

ble 1-5.--Inspections in which the inspection company questioned either quality/quantity or invoice price, by countries or regions, and by inspection companies, 1986

spection company untry or region	Percent for which price was questioned	Percent for which quality was questioned
S 1/		
Africa 2/..............	***	***
Latin America and Caribbean.	***	***
tertek		
Nigeria................	***	***
Venezuela..............	***	***
reau Veritas		
Guinea.................	***	***
Venezuela.............	***	***

***.
***.

urce: Compiled from data supplied by the inspection companies in response a Commission questionnaire.

Table 1-6. Action taken on shipments for which inspection company questioned invoice price, by countries or regions, by inspection companies, 1986

(in percent)

Company and country or region	Exporter provided additional information and price was approved	Exporter decreased transaction price	Exporter canceled order	Inspection company issued NNRF	Other
SGS:					
Africa 1/........	***	***	***	***	***
Latin America and Caribbean..	***	***	***	3/ ***	***
Intertek:					
Nigeria..........	***	***	***	***	***
Venezuela........	***	***	***	***	4/ ***
Bureau Veritas:					
Guinea...........	***	***	***	***	***
Venezuela........	***	***	***	***	***

1/ ***.
2/ ***.
3/ ***.
4/ ***.

Source: Compiled from data supplied by the inspection companies in response to a Commission questionnaire.

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Table 1-7.--Total value of all shipments receiving Clean Report of Findings aftera reduction in the transactions prices, by inspection companies, by SITC Nos., 1986

(In thousands of dollars)

SITC No.	SGS		Intertek		Bureau Veritas		Total	
	Initial advisory documents	Final settlement invoices	Initial advisory documents	Final settlement invoices	Initial advisory documents	Final settlement invoices	Initial advisory documents	Final settlement invoices
0.........	***	***	***	***	***	***	***	***
1.........	***	***	***	***	***	***	***	***
2.........	***	***	***	***	***	***	***	***
3.........	***	***	***	***	***	***	***	***
4.........	***	***	***	***	***	***	***	***
5.........	***	***	***	***	***	***	***	***
6.........	***	***	***	***	***	***	***	***
7.........	***	***	***	***	***	***	***	***
8.........	***	***	***	***	***	***	***	***
9.........	***	***	***	***	***	***	***	***
Total	***	***	***	***	***	***	***	***

Source: Compiled from data supplied by inpsection companies in response to a Commission questionnaire.

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Obviously, the inspection companies and exporters faced opposite incentives in their reporting of the extent of shipment delays caused by PSI. *** claimed that in March 1987 "physical inspections were conducted within 7 days in 99 percent of the cases and reports of findings were issued within three days in 98.7 percent of the cases." *** reported similarly large percentages for all of 1986. *** This may account for the lengthy and frequent delays indicated by the sample of exporters.

CHAPTER 2. U.S. EXPERIENCES UNDER PRESHIPMENT INSPECTION PROGRAMS

Introduction

The first part of this chapter looks at allegations by certain U.S. exporters that PSI's cause delays in shipments and otherwise obstruct the shipment process and unnecessarily interfere with their pricing policies. These exporters claim that inspection companies are unwilling to cooperate with exporters to ease the burden of the PSI requirement, and that these companies require exporters to provide confidential information with no guarantees as to how such information will be used. Data is provided in this section for U.S. experiences with all PSI programs; a country-by-country analysis is presented in Chapter 3.

To obtain information on the effect of PSI practices on U.S. commerce, the Commission collected data and information from questionnaires sent to U.S. firms that export to countries that require PSI's. 1/ The data obtained from this source provide an indication of the frequency and magnitude of problems caused by PSI's. From this information, an assessment of the costs to U.S. exporters is provided. The final section of the chapter examines the effects of PSI on two U.S. industries, commercial gaugers and chemicals.

Background: Value and Commodity Composition of U.S. Exports to Countries Requiring Preshipment Inspections

Total U.S. exports to the 26 countries reviewed for this investigation amounted to $20.4 billion in 1985 and $19.0 billion in 1986 (see table 2-1). Such exports accounted for about 9 percent of the total value of U.S. exports to the world during those two years. The top 10 of these countries include all but one of the Central American and South American countries requiring preshipment inspections, as well as Indonesia and Nigeria. These 10 countries accounted for $18.3 billion of U.S. exports in 1986, or over 95 percent of the total value of exports to the 26 countries.

1/ The Commission's questionnaire for producers and exporters was reviewed by the Office of Management and Budget (OMB). OMB received public comment on the questionnaire, and held several meetings with ITC and USTR staff to review our requirements for the data to be collected, and ways to lessen reporting burden on the respondents. The public comment period, revision of the questionnaire and clearance took 9 weeks. Approximately 400 work hours of USITC staff time were devoted to negotiating suggested revisions, preparing format and question changes, and conferring with USTR about the effects of the proposed changes. As a result of OMB review, format changes and elimination of questions resulted in shortening the questionnaire from 30 to 15 pages.

The Commission had an 80 percent response rate to its questionnaire. See app. E for a description of the questionnaire design and sample methodology.

Table 2-1.--Total U.S. exports to countries investigated as requiring preshipment inspections, 1985 and 1986

(F.a.s. value, in millions of dollars)

Country	Total exports 1985	Total exports 1986
Mexico	13,084	11,925
Venezuela	3,094	3,062
Indonesia	774	911
Ecuador	584	584
Jamaica	396	446
Nigeria	645	400
Guatemala	398	392
Haiti	387	379
Paraguay	84	127
Bolivia	116	108
Zaire	102	103
Angola	137	86
Ghana	53	84
Suriname	85	83
Kenya	91	67
Liberia	72	65
Ivory Coast	69	59
Tanzania	46	38
Zambia	59	35
Madagascar	33	25
Guinea	49	24
Congo	19	10
Rwanda	6	4
Uganda	5	4
Burundi	6	2
Equatorial Guinea	1/	1/
Total	20,394	19,023

1/ Less than $0.5 million.

Source: Compiled from official statistics of the U.S. Department of Commerce.

The total value of U.S. exports by broadly defined Schedule B category for ll 26 countries investigated as requiring PSI's is presented in table 2-2. ıe category with the largest amount of exports, in terms of value, in 1986 ıs machinery and transportation equipment, with exports valued at).9 billion (47 percent of the total value of 1986 exports), followed by ıemicals and related products valued at $2.9 billion (15 percent), and animal ıd vegetable products valued at $2.3 billion (12 percent).

Table 2-2.--Total U.S. exports to 26 countries investigated as requiring preshipment inspection of U.S. exports, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1	Animal and vegetable products	3,314,207	2,336,186
2	Wood and paper: printed products	843,043	857,701
3	Textile fibers and textile products	702,356	740,111
4	Chemicals and related products	3,117,577	2,858,533
5	Nonmetallic minerals and products	357,609	338,833
6, pts. 1-3	Metals and metal products	1,037,544	869,793
6, pts. 4-6	Machinery and transportation	8,979,588	8,911,068
7	Miscellaneous and nonenumerated products	1,444,295	1,550,764
8	Special classifications division--Other	598,654	560,957
	Total	20,394,873	19,023,945

Source: Compiled from official statistics of the U.S. Department of Commerce.

The size of shipments in terms of value and number of shipments is provided in table 2-3. The mean value of shipments was $19,200. The size of shipments has a bimodal distribution, with about one-third of the shipments being small ($3,000 or less) and another one-third being moderate in size (between $5,000 and $25,000). Several exporters, after experiencing delays and other problems with PSI, expressed the propensity to ship small orders or break large orders up in order to be exempt from PSI's. The minimum inspectable shipment value varies from country to country, but for most of the

Table 2-3.--Share of the total number of U.S. shipments to countries investigated that require preshipment inspection, by range of shipment values, 1986

Value of shipments	Share of total number of shipments
	Percent
$1,000 to $2,000	20.6
$2,001 to $3,000	12.2
$3,001 to $4,000	8.8
$4,001 to $5,000	8.2
$5,001 to $10,000	18.2
$10,001 to $25,000	17.6
$25,001 to $50,000	7.9
$50,001 to $100,000	3.8
$More than $100,000	2.6

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

ntries it is between $2,500 and $5,000. This may explain why so many small pments are observed. Other factors, such as economic conditions and ximity may also contribute to this distribution.

Roughly two-thirds of U.S. exports in 1986 to the countries that require 's were made to unrelated parties. That is, most of the shipments were e to companies that were not in any way affiliated with the exporter. The ue and the number of shipments made to related and unrelated parties as a re of the total value and the total number of shipments were compiled from ort declarations provided by the Bureau of the Census and are shown in the lowing tabulation:

	Value of shipments	Number of shipments
	---------Percent--------	
Shipments to--		
Related parties	34.4	35.7
Unrelated parties	65.6	64.3

Exporter Questionnaire Responses

Total exports from the sampled respondents were valued at $1.6 billion, or percent of the total value of shipments in 1986 to the 26 countries estigated as requiring PSI's. Some shipments were not inspected because y were valued at less than the minimum inspectable value, inspection was ved, or the exporter received no instruction that an inspection was uired. The total number of shipments to PSI countries reported by the pondents was 69,682; 27.6 percent of these were reported inspected. On a ue basis, 50.2 percent of the reported shipments were reported inspected.

The sample of exporters included companies that exported in all Schedule B ssifications. Table 2-4 presents the distribution of exports in terms of ue reported in the questionnaire sample by broad Schedule B category. Of al exports reported by respondents to countries requiring PSI's, 33 percent e shipments of animal and vegetable products; 24 percent were shipments of micals and related products; 23 percent were shipments of metals, metal ducts, and machinery and transportation equipment (13 percent machinery and nsportation equipment and 10 percent metals); 6 percent were shipments of cellaneous and nonenumerated products; 5 percent were shipments of wood, er, and printed products; and 5 percent were textile fibers and textile ducts. Nonmetallic minerals and products, and special classifications each ounted for less than 2 percent of total shipments to countries requiring 's. This distribution follows the distribution of total exports to these ntries except for animal and vegetable products and machinery and nsportation. The questionnaire respondents reported animal and vegetable ducts in higher proportion to total shipments than is reflected in the icial Census statistics, and the Census statistics show machinery and nsportation equipment exported to these countries in higher proportion than questionnaire responses.

Table 2-4.--Sampled value of total exports to countries requiring preshipment inspections, by Schedule B, 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	Total value of exports in sample
1	Animal and vegetable products	517,295
2	Wood and paper: printed products	82,689
3	Textile fibers and textile products	77,694
4	Chemicals and related products	373,188
5	Nonmetallic minerals and products	26,361
6 pts. 1-3	Metals and metal products	159,358
6 pts. 4-6	Machinery and transportation	200,148
7	Miscellaneous and nonenumerated products	96,986
8	Special classifications division--Other	27,083
	Total	1,560,802

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Length of time required for export shipments and related processes

To assess the effects of PSI's on the length of the shipment process, 1/ the questionnaire asked for an estimate of the average number of calendar days required for shipments, whether or not inspected, to countries requiring PSI. They also were asked to provide an estimate of the average number of calendar days required for shipping to countries that do not require PSI's. This comparison provides a good indication of the additional length of time required overall for shipping to countries requiring PSI, but does not represent the additional length of time required for PSI alone since not all shipments are inspected. Other factors may also affect the process of exporting to developing countries requiring PSI's, such as certain customs procedures that may not be required in other countries.

The following tabulation indicates the average number of calendar days estimated for the shipment process to countries that use PSI's compared with countries that do not use such programs:

	Calendar days
Countries that require PSI	21
Countries that do not require PSI	7

1/ Shipment process is defined as the time between when the shipment was readied at the plant until the firm was issued a Clean Report of Findings or until the firm was able to furnish an invoice for payment if the shipment was not inspected.

Delays

For those shipments that were inspected, respondents were asked to report the number and value of shipments for which delays occurred, and the average length of delay as a result of PSI during 1986 for each of the countries requiring PSI. The respondents reported 8.5 percent of their total number of shipments to countries requiring PSI's experienced delays in 1986. Of the number of shipments that were inspected, 40 percent experienced delays, according to the exporters. The total value of such shipments amounted to $319 million. The average length of delay was 20 calendar days, as shown in the following tabulation:

Delayed shipments as share of inspected shipments (percent)..	40.0
Value of delayed shipments (1,000 dollars)..................	318,908
Average delay (calendar days)..............................	20

Price comparison

Respondents were asked to report the number of shipments for which the invoice price was questioned by the inspection company, what steps were usually taken when the price was questioned, the number of calendar days required to resolve the problem, and at what point in the inspection/shipment process the inspection company usually notified the exporter that there was a question regarding price. In cases where the firm was required to lower the price on a shipment, exporters were asked to report the total value of such shipments before and after the price change to provide an estimate of the magnitude of revenues lost.

Respondents reported that the invoice price on their shipments was found to be too high by the inspection company in 3.5 percent of the total number of inspected shipments (see table 2-5). (Data reported by the inspection companies is presented in table 1-5.) In 67 percent of these cases, the exporter provided additional documentation in support of their prices, and the inspection company accepted the original price. In 20 percent of the cases, the exporter decreased the transaction price in order to make the shipment. In 5 percent of the cases respondents reported that they received a Non-negotiable Report of Findings, and a minority (1 percent) canceled the disputed shipment.

Although respondents frequently indicated that the inspection company notified their firm when there was a question regarding price when the final documents were presented, many exporters reported that they were notified of price questions at the initial presentation of documents to the inspection company and after the shipment was made, as shown in the following tabulation:

Point of notification:	Percent of respondents
When preliminary documents presented to inspection company requesting inspection.............	28.6
When final documents presented to the inspection company....................................	34.8
After shipment was made..................................	28.6
Other..	8.0

Table 2-5.--Percent of shipments for which certain actions were taken by the exporter when the inspection company asserted that the export price was too high, 1986

Action taken	Share of disputed shipments	Average number of days to resolve
	Percent	Calendar days
Decreased the transaction price.............	19.5	30
Provided additional documentation and/or other evidence in support of exporter's price, price accepted by the inspection company........................	66.8	20
Canceled the order.........................	1.1	85
Received a Non-negotiable Report of Findings.................................	4.9	76
Other......................................	7.7	32

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Lost revenues

Respondents reported that in 0.8 percent of the number of shipments that were inspected, they were required to reduce the price of the goods shipped. The total value of shipments before the price change was $17.2 million and $15.4 million after the price change, amounting to a total lost of revenue of $1.8 million, or 10.5 percent of the total value of the affected shipments.

Other practices

One purpose of the questionnaire was to provide data on a number of claims by exporters that a number of other practices by inspection companies frequently occur that either interfere with the shipment process, or reveal the firm's confidential business information (CBI). Reported practices that interfere with the shipment process included the refusal of the inspection company to take into account special shipping requirements, or to expedite procedures when permits or letters of credit are due to expire; the need for scheduling a second inspection because the inspector failed to arrive; papers lost by the inspection company; and lack of clarity concerning PSI procedures and requirements. Respondents also claimed that inspection companies request data that is considered confidential. The frequency of such practices reported by questionnaire respondents is summarized in table 2-6.

Table 2-6.--Reported share of shipments for which certain practices by the inspection company occurred, 1986

Practice	Share of total number of inspected shipments
Refusal of inspection company to expedite procedures when letter of credit or permit is due to expire	0
Second inspection required because--	
Goods were not available for inspection on the date assigned for initial inspection	2.0
Goods inspected at initial inspection asserted by inspection company not to be of proper quality or quantity	0.6
Inspector failed to arrive at date and time assigned for initial inspection	1.5
Value stated in Clean Report of Findings differed from that stated on import license	1.8
Papers lost by inspection company, duplicates had to be provided	1.1
Shipment made and Clean Report of Findings not issued	1.8
Inspection company set limits on freight charges	2.5
Other	3.5

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Practices that interfered with the shipping process most frequently reported by respondents during 1986 included the limitation on freight charges, the value stated in the Clean Report of Findings differing from that stated in the import license, and no Clean Report of Findings issued even though the shipment had been made. Other practices reported by the respondents include slow processing of the inspection paperwork causing delays, discrepancies in the paperwork, mixups in the inspection process, and questions by the inspection companies as to agent's commissions, insurance charges, and finance charges.

The type of data most frequently requested by the inspection companies were preshipment pro formas (reported by 43 percent of the respondents), published or unpublished export pricelists (39 percent), ocean, air, and other freight charges (38 percent), copies of letters of credit (34 percent), and technical literature on catalogs of the merchandise (30 percent). These are reported in table 2-7. Other information that inspection companies requested from the exporters includes packing lists, copies of bills of lading, copies of invoices, statements about commissions (agent and amount), and shipping details.

Table 2-7.--Reported frequency of requests by inspection company for certain types of data, 1986

Type of data	Share of respondents
	Percent
Published U.S. pricelists	28.8
Published or unpublished export pricelists	39.1
Unpublished pricelists based on quality or packaging differences, quantity discounts for volumes, or other justification of invoice price if invoice prices do not match prices on published pricelist	11.0
Profit margins	8.1
Manufacturing costs, including sources and costs of new materials and direct costs of processing	7.0
Markups over manufacturing costs	6.5
Brokerage fees	11.7
Freight forwarders fees	20.4
Ocean, air, and other freight charges	37.6
Copies of contracts between buyers and sellers	25.8
Details of product composition	18.3
Technical literature and catalogs on the merchandise	29.5
Access to restricted areas	4.9
Preshipment pro formas	42.6
Letter of credit	34.5
Other	18.5

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Exporter's evaluations of PSI's

The majority of general comments regarding PSI's were negative, with 70 percent of respondents either having strong objections based on principles (hindrance to free trade, compromise of confidential information, etc.), or having specific complaints (inspection increases costs, causes delays, etc.).

Of the respondents with negative overall comments, about two-thirds had specific complaints regarding the qualifications of the PSI company employees conducting the inspections, delays in shipments, additional costs, and delays in payment resulting from the PSI's. Some respondents supplied detailed comments about their problems. The remainder, amounting to 24 percent of the respondents with general comments, rejected the programs completely. In particular, these respondents objected to being required to surrender CBI to third parties and viewed the programs as trade barriers.

About 19 percent of the respondents viewed PSI's in a positive light. A minority of these respondents voiced support for the programs, whereas the rest indicated acceptance of the procedures, few major problems, and the need for cooperation with the inspection companies. This attitude is best characterized in the opinion (reported by several exporters) that PSI's were just "part of doing business with these countries." About 12 percent of the respondents said they did not have sufficient experience with PSI's to evaluate them.

Respondents were asked to assess the responsiveness of the inspection companies to questions that arose in the shipping process. Responses indicated that 76 percent of the respondents reported that their questions were answered, 13 percent reported that their questions were not answered, and 11 percent reported that they did not know. Of the respondents who reported that the inspection companies did answer their questions, 20 percent included comments. These comments were evenly divided between praise for the inspection company's helpfulness and complaints regarding the lack of clarity of answers, their untimeliness, and their inconsistency.

Several respondents cited cases in which they appealed a disagreement with the inspection company to the importing country. The resolution in each case differed, some exporters finding a satisfactory solution, others not.

Costs of PSI's and their effect on U.S. exports 1/

PSI's add to the U.S. exporter's costs of doing business with countries requiring this service. These costs include those associated with delayed shipments, personnel costs, and other administrative costs. Costs associated with delays in shipments include delayed payments, charges incurred for letter of credit discrepancies, and demurrage charges. Personnel costs include the costs of personnel required to arrange the physical inspection, to complete the paperwork, and to resolve any problems that arise concerning invoice prices. Finally, other administrative costs include telephone calls and courier fees and costs incurred for second inspections.

Costs associated with the length of delay are calculated based on unrealized earnings on payment and vary with the value of the shipments. Some costs such as courier fees and telephone charges may not vary with shipment value. Companies that make small shipments may incur larger costs relative to the value of shipments than do companies that make large shipments.

In the short run, costs of PSI's may reduce the firm's profit margins if the firm has not allowed for any markup to cover inspection costs. This could lead to a reduction in shipments by some firms.

1/ OMB required that question D.1, section 2, requesting data on preshipment inspection costs in the form of telephone charges, courier fees, charges for letter of credit discrepancies, demurrage charges, and other charges, be made optional in view of the likelihood that some firms do not maintain these records. Since question D.1 was optional, a number of respondents chose not to complete the question. Out of 643 questionnaires mailed, 513 response were received. Of this number, 401 contained data and 112 noted the questionaire was not applicable. The average number of responses to mandatory questions was 237. D.1, the only optional question, received 126 responses.

In the long run, as firms begin to adjust prices to compensate for PSI costs, prevailing market prices of exports to these countries are likely to rise. Even so, smaller companies whose costs are large relative to the value of their shipments may either exit from the market or seek export markets where preshipment inspections are not required. This would contribute to the tendency for prices to PSI countries to rise.

A number of questions were included in the questionnaire to determine the costs and frequency of such costs incurred by exporters shipping to PSI countries. An assessment of these costs is summarized below.

To assess the costs of delayed payments, the Commission obtained information from the questionnaires on the length of delays and value of shipments that were delayed. The cost of delayed payments can be estimated as the interest foregone on the value of the shipments. The commercial paper rate represents an approximation of the interest rate that a firm could earn for capital not tied up in delayed shipments. Using the 1986 commercial paper rate of 6.50 percent, and an average length of delay of 20 days, these delays are estimated to have cost U.S. exporters an average of 0.4 percent, or $172 per shipment delayed. 1/

To assess the personnel costs of PSI procedures, questionnaire respondents were asked to provide information on the number of employees involved in the process and the percentage of their time spent on the process. The average total personnel costs reported by respondents were $401 per shipment. This information is summarized in the following tabulation:

	Respondent average
Total number of employees	4
Time spent on PSI's (percent)	15.9
Number of new employees hired to handle PSI's	1
Time spent by new employees on PSI's (percent)	51.3
Estimate of average total personnel costs per shipment for PSI's	$400.67

Finally, questionnaire respondents were asked the frequency and average costs of telephone calls and courier fees, charges for letters of credit discrepancies, and demurrage charges per shipment. The costs most frequently incurred by exporters for the PSI process were courier fees and telephone calls. These costs occurred for 25.4 percent of inspected shipments, and amounted to about $81 per affected shipment, on average (see table 2-8). Demurrage charges incurred by the exporter resulting from delays at the port of entry awaiting a Clean Report of Findings occurred for 0.6 percent of U.S. shipments and cost $116 per affected shipment, on average. Charges for letter of credit discrepancies through the fault of the inspection company occurred for 2.4 percent of inspected shipments and cost the exporter an average of

1/ The commercial paper rate used here is a proxy. The actual rate for an individual exporter may have been greater or less than 6.5 percent.

:55 per affected shipment. Other charges, which included expenses for travel, .abor (escort for inspection company personnel and clerical staff), rarehousing, postage, and inventory carrying costs were cited by respondents. :hese charges were incurred for 11.1 percent of inspected shipments, and ımounted to an average cost of $308 per affected shipment.

Table 2-8.--Share of shipments affected to all countries and average costs incurred by the exporter per shipment for certain occurrences during the preshipment inspection process

Occurrence	Percent of number of inspected shipments affected	Average reported cost incurred per affected shipment
	Percent	
Courier fees and telephone calls..............	25.4	$81
Charges for letter of credit discrepancies....	2.4	55
Demurrage charges.............................	0.6	116
Other...	11.1	308

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

If exporters were to incur all of the costs (including those associated with delayed shipments, personnel costs, and other administrative costs) on all inspected shipments, their average total costs would be very high. However, as table 2-9 shows, exporters did not incur all costs on all shipments. An exporter might reasonably expect to incur some of these costs on some shipments. Based on the exporters' reported incidence of these costs and the average estimated cost incurred, the expected average cost is $526.72 per inspected shipment, or 1.3 percent of the average value of inspected shipments.

Effects of Preshipment Inspection Programs on Certain U.S. Industries

This section assesses the effects of PSI programs on two particular industries, commercial gaugers and chemicals. Both have alleged injury as a result of PSI programs and the practices of the private inspection companies implementing them.

The commercial gauging industry, a service industry that provides quantity and quality assessments of U.S. imports and domestic shipments, has alleged injury due to the exclusive nature of PSI contracts. 1/ In these contracts,

Table 2-9.--Estimated expected costs per inspected shipment associated with preshipment inspections

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average estimated cost	Estimated expected cost per inspected shipment
Personnel	100.0	$ 400.67	$ 400.67
Delays	40.3	172.00	69.31
Courier fees and telephone calls	25.4	80.86	20.50
Charges for letter of credit discrepancies	2.4	55.11	1.31
Demurrage charges	.6	116.07	.72
Other	11.1	307.53	34.21
Total expected costs:			
Per shipment inspected	-	-	526.72
As a percent of weighted average value of inspected shipments	-	-	1.30

The estimated average value of inspected shipments to all countries is $40,660.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

1/ The commercial gaugers are the only service-related industry that stated their concerns regarding PSI practices at the Commission's March hearing on PSI in Miami. For additional information, see pp. 350-367 of the official Transcript of Hearings before the Commission, Mar. 2, 1987.

In addition to the oral and written testimony submitted by the commercial gaugers, a letter was received by the Commission from the National Customs Brokers and Forwarders Association of America, Inc., on Apr. 16, 1987. This association represents 450 members and 30 local affiliated associations. In its letter, the association claims that some PSI companies have questioned the level of the fee the Ocean Freight Forwarders charge to the exporter for arranging for the dispatch of shipments. These forwarders, who are licensed and supervised by the Federal Maritime Commission, reportedly have been told on occasion that their charges to the exporter are excessive, that these charges should be reduced, and unless they are, the possibility exists that the export would be delayed. The association considers this practice of interposing the inspection company between the exporter and its forwarder to be unjustified and an unnecessary impediment to the flow of U.S. exports. The letter further states that the inspection companies are not experts in the details involved (e.g., time needed for processing the shipment, the technical services required, and the responsibility involved) in the forwarding of a shipment and, therefore, are not competent to judge the reasonableness of the freight forwarders fee.

the country specifies that only the contracting company (or, in the case of Venezuela, licensed companies) may inspect their shipments from the United States. According to the gaugers, this exclusive nature of PSI contracts has affected their ability to compete for certain inspection services.

U.S. firms engaged in the manufacture and export of chemicals and pharmaceuticals have voiced the strongest opposition to PSI's of U.S. exports to developing countries. The foremost concerns of the chemical industry appear to be costly delays and price verification, the procedure used to determine if an exporter's price is acceptable.

Commercial Gaugers

The primary function of commercial gaugers is to authenticate that the volume of goods listed on a bill of lading is the amount actually on board the vessel at the port of unloading. Volume and sampling activities are performed on board the arriving vessel in the presence of, or with permission of, the vessel's master or other appropriate authority. A standard procedure is for the gauger to take a sample of the imported product in question for analysis either at its laboratory or at another customs-approved commercial laboratory. This practice of quality analysis is also performed when gauging products either for export or for shipment within the United States. The sample is retained by the gauging firm for a short period of time in case a disagreement arises between buyer and seller regarding quality.

On some cargoes, the quantity and quality inspection reports are made available to the U.S. Customs Service, for customs purposes. However, Customs will accept private gauging reports only when the gauger or laboratory complies with the appropriate requirements of parts 113, 151, 1/ and 178 of Customs Regulation No. 7, and has received Customs accreditation. 2/

Those commercial gaugers approved by Customs to verify imports must furnish a bond, in the amount of $10,000. 3/ Further, as a condition of Customs approval, the gauger must agree to have no financial interest in, or other connection with, any business or other activity that could affect the unbiased performance of its duties as a commercial gauger for customs purposes.

1/ The U.S. Department of the Treasury's Custom Service final rule for approval of commercial gaugers and accreditation of commercial laboratories was published in the Federal Register of Mar. 26, 1987, (52 F.R. 9784). The complete list of items that Customs will accept quality and quantity reports for from Customs-approved commercial gaugers and Customs-accredited commercial laboratories appears in the newly added sec. 151.13 to subpt. A of pt. 151.

2/ There is another group of gaugers, called independent gaugers, who gauge both export materials and products shipped within the United States. This group does not have to be approved by Customs unless they also measure products approved by Customs for gauging by the private sector, and which are entering the United States from outside the customs territory of the United States.

3/ Based on information obtained during a telephone conversation on May 20, 1987, between staff and an official at the U.S. Customs Service, it was learned that the amount of the bond is under review. The U.S. Customs Service reportedly does not think that it is equitable to levy the same fee against small commercial gaugers as that levied against larger firms.

Customs will accept quantity reports from Customs-approved commercial gaugers for petroleum, petroleum products, and sugar. Effective April 27, 1987, it accepts reports for certain organic chemicals and vegetable oils. Customs will also accept laboratory analysis reports from Customs-accredited commercial laboratories for the identity and composition of bulk liquid organic chemicals, for the criteria for standard newsprint paper, and for the basic weight of paper. There are approximately 47 gaugers on the Customs-accredited list of commercial gaugers. These gaugers are authorized to measure only quantity and quality, and do not make any assessments regarding price.

Industry Profile

Industry sources report that most of the approximately 47 Customs-approved commercial gaugers employ between 25 and 30 workers. However, there are four companies that reportedly dominate the commercial gauger industry, and three of these four firms are subsidiaries of foreign-based international inspection concerns. 1/ These four firms and the nationality of their parent firms are shown in the following tabulation:

U.S. commercial gauger	Location of the parent firm
Caleb Brett U.S.A., Inc., Houston, TX...........	Great Britain
Chas. Martin Inspection and Controls, Inc., Houston, TX	Switzerland
SGS Control Services, Inc., New York, NY........	Switzerland
E.W. Saybolt & Co., Inc., Kenilworth, NJ........	United States

It is estimated that these four firms control approximately 75 percent of the Customs-approved commercial gauging market.

* * * * * * *

2/

*** also reported that fees can vary greatly because of the nature of the product and the work required, therefore no reasonable method exists to determine the total value of gauging sales.

* * 3/ * * * * *

1/ Chas. Martin Inspection and Controls, Inc., was a U.S. firm until Dec. 31, 1986, at which time it was purchased by a Swiss concern, Inspectorate.

2/ ***.

3/ ***

The Association of Inspection Companies and Laboratories supplied the Commission with the following data on the share of commercial gauging of petroleum and petroleum products that entered through the Port of Houston, TX, in 1986: 1/

Firm/U.S. Government	Share of commercial gauging (Percent)
Caleb Brett	36.9
SGS	22.8
E. W. Saybolt	20.8
U.S. Customs 2/	10.0
All other 3/	9.5

Effect of preshipment inspection on the gaugers

According to an official of the Technical Services Division, U.S. Customs Service, many gaugers (reportedly as many as 9 out of 10) do not remain in business for more than 2 years. These failures are reportedly due to normal business problems, not to PSI. 4/

Some U.S. commercial guagers have expressed concern that the exclusive nature of many countries' PSI contacts may have the effect of giving the designated PSI company an unfair advantage in competition in the U.S. market

1/ Based on information obtained during two separate telephone conversations between Commission staff and association staff on Mar. 13, 1987.

2/ The association reported that Customs performs the gauging when no inspector is nominated by the importing firm.

3/ The 9.5 percent of the gauging sales at the Port of Houston listed in the "all other" category in 1986 was divided among 36 smaller gaugers, of which two firms dominated, and represented, in the aggregate, 7.8 percent of 9.5 percent (i.e., 82 percent). For example, ***. This left 1.7 percent of the gauging sales in Houston, TX in 1986 (or about 18 percent of the smaller firms' share) to be divided among 34 commercial gauging firms.

4/ This statement was substantiated in ***, ***, and ***. However, *** claimed that PSI national contracts have allowed inspection companies to "get their foot in the door" on the import and domestic side of gauging by introducing themselves to new customers via PSI work. ***

for commercial guaging services. Both *** reported to the Commission that for many years the PSI contracts had little effect on U.S. commercial gaugers because these contracts were limited to relatively small markets in Africa. U.S. commercial gaugers reported a noticeable loss of revenue to PSI companies only after nations in other regions began employing PSI. An industry source reported this was due in part to the fact that the imports from African nations tended to be small items rather than the large volume, bulk goods commercial gaugers normally inspect. It was also reportedly due in part to the fact that inspection companies with exclusive rights to supervise imports in certain developing nations are also often hired to verify that country's exports at discharge ports in the United States. This may occur on a transaction-by-transaction basis, or as is the case in at least five countries, a contractual arrangement may be made. For economic reasons, customers generally prefer using the same inspection company on both sides of the transaction (loading port and discharging port).

One inspection company, SGS, has contracts with five (Ecuador, Indonesia, Guatemala, Paraguay, and Bolivia) of the 23 countries for which it performs PSI services to check exports. Further, SGS stated that it performs these inspections at the point of supply for products destined for the United States, rather than at U.S. ports where the commercial gaugers perform their business. Because it is customary industry practice in the international trade of crude petroleum to inspect the cargo at the time of loading and at the time of discharge, ***. 1/

The Chemical Industry 2/

The chemical industry in the United States consists of several thousand manufacturers. They range from small one- or two-person operations making one simple product, to multiplant, multinational firms that manufacture a variety of simple and complex products. Chemical manufacturing facilities are located in every State in the country as well as in several U.S. territories. However, the areas of greatest concentration include the Northeast, the Midwest, and the gulf coast.

In 1986, the U.S. chemical industry manufactured or processed chemicals valued in excess of $216 billion. Of that total, nearly $23 billion, or more than 10 percent, was exported. Imports of chemicals entering the U.S. marketplace amounted to about $15 billion in 1986. As a result, the United States recorded an overall trade surplus in chemicals of nearly $8 billion. This represents a reversal of a trend of steadily declining chemical trade surpluses from the high point of over $12 billion recorded in 1980, and amounts to an increase in 1986 of more than 8 percent over the total for 1985.

1/ ***.
2/ Does not include petroleum.

Of the nearly $23 billion in chemical exports in 1987, most went to Europe, Canada, and Japan. However, according to members of the industry, the market with the best growth potential for U.S.-made chemicals is the developing countries.

U.S. chemicals exports to all countries outside Canada, Japan, and Western Europe amounted to $11.2 billion, or about 50 percent of the total in 1986 (see table 2-10). U.S. chemicals companies compete in these markets with producers in the developed countries, and with some developing countries that have fostered chemicals export industries (e.g., Brazil) to earn foreign exchange. However, most PSI countries do not have significant chemicals industries.

Table 2-10.--U.S. exports of chemicals, 1/ total and to selected country groups, 1982-86

Country	1982	1983	1984	1985	1986
	F.a.s. value, in thousands of dollars				
Europe, Canada and Japan	9,903,251	10,088,123	11,320,255	11,208,588	11,612,223
PSI Countries	2,400,480	2,103,957	2,445,641	2,418,920	2,349,629
All Other Countries	8,091,908	8,029,220	9,021,312	8,337,423	8,800,732
Total	20,395,639	20,221,301	22,787,208	21,964,931	22,762,585
	Share, in Percent				
Europe, Canada and Japan	49	50	50	51	51
PSI Countries	12	10	11	11	10
All Other Countries	40	40	40	38	39
Total	100	100	100	100	100

1/ Schedule 4 of Schedule B, excluding petroleum (Schedule 4, Part 10).

Source: Compiled from official statistics of the U.S. Department of Commerce.

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

Countries with PSI programs accounted for $2.4 billion, or about 10 percent of total U.S. chemicals exports in 1986. Chemicals was the second leading U.S. export to the countries employing PSI, accounting for 15 percent of U.S. exports to them in 1986. Of the countries that employ PSI programs, Mexico, 1/

1/ Mexico only requires PSI for selected public procurements.

Venezuela, 1/ Indonesia, 2/ and Ecuador 3/ were the leading markets for U.S. chemicals in 1986 (see table 2-11).

Table 2-11.--U.S. domestic exports of chemicals to countries employing preshipment inspection, 1982-86.

(F.a.s. value basis, in thousands of dollars)

Country	1982	1983	1984	1985	1986
Angola...............	4,293	2,562	2,981	4,424	2,452
Bolivia..............	7,791	8,712	7,576	6,374	4,364
Burundi..............	3	1	33	37	0
Congo................	578	201	90	362	610
Ecuador..............	117,657	80,745	105,168	119,774	125,433
Equatorial Guinea....	124	3	0	0	0
Ghana................	37,303	6,895	1,637	4,548	19,892
Guatemala............	81,627	78,528	83,321	75,921	76,089
Guinea...............	806	734	570	3,304	368
Haiti................	14,662	14,409	15,449	14,402	13,022
Indonesia............	251,169	252,942	238,201	167,271	216,422
Ivory Coast..........	9,223	8,035	5,550	5,363	9,548
Jamaica..............	73,608	53,382	51,846	46,288	45,693
Kenya................	10,115	16,832	10,310	15,862	11,827
Liberia..............	4,212	4,807	3,576	3,545	2,694
Madagascar...........	73	522	697	1,436	1,035
Mexico...............	1,187,955	1,104,564	1,268,664	1,408,560	1,255,669
Nigeria..............	52,578	52,204	44,269	54,161	42,890
Paraguay.............	9,430	3,277	3,310	4,507	4,520
Rwanda...............	27	5	115	12	18
Suriname.............	29,084	29,481	26,222	22,363	15,059
Tanzania.............	3,971	2,424	13,337	4,394	7,563
Uganda...............	310	68	402	121	41
Venezuela............	493,204	376,524	553,527	448,596	491,428
Zaire................	3,465	3,037	2,671	3,155	2,261
Zambia...............	7,210	3,061	6,122	4,141	731
Total..............	2,400,478	2,103,955	2,445,644	2,418,921	2,349,629

Source: Compiled from official statistics of the U.S. Department of Commerce.

As noted previously, the chemical industry has been particularly vocal in its objections to PSI. More than 28 percent of the exporters responding to the Commission's questionnaire indicated that they exported chemicals to PSI countries. Those exports accounted for 24 percent of the value of shipments reported by questionnaire respondents.

1/ Chemicals accounted for 16 percent of the value of total U.S.exports to Venezuela in 1986. Venezuela instituted its PSI program on June 3, 1986, partly to prevent fraud associated with the adoption of a 4-tiered exchange rate system.

2/ Chemicals accounted for $220.7 million or 24 percent of total U.S. exports to Indonesia in 1986. Indonesia instituted PSI requirements on April 1, 1985.

3/ Chemicals accounted for $137 million, or 23 percent of total U.S. exports to Ecuador in 1986. Ecuador instituted its PSI program on March 1, 1985.

There is some evidence that the chemical industry may be particularly vulnerable to PSI's. Chemicals accounted for a higher percentage of the value of shipments inspected by PSI companies than its share of total U.S. exports to PSI countries (15 percent) might suggest. Based on data supplied by the inspection companies in response to the Commission's questionnaire, chemicals accounted for 20 percent, or $572.2 million, of the value of U.S. exports inspected by PSI companies in 1986 (table 1-2).

Impact on the Industry

Members of the chemical industry and others involved in the export of U.S.-made chemicals to the countries that require PSI have cited a number of problems and concerns regarding the PSI process and its application in specific transactions. These include delays, confidentiality problems, increased costs, nonuniform application, price reviews, lack of an appeals process, and various other considerations.

Delays

Members of the chemical industry allege that PSI introduces delays into the export process, 1/ but the PSI companies claim that it does not. Questionnaire data submitted to the Commission by members of the chemical industry confirm the U.S. chemical industry's allegations. Of the 117 firms which indicated that they exported chemicals to countries that employ PSI, 35 cited costly delays as a primary concern. The average number of calendar days required from the time the material was presented for inspection and shipment to the time the firm could request payment was generally greater to countries that require PSI than to countries that do not. Among the adverse effects cited by the industry as a result of delays are the loss of interest income, a reduction in customer confidence and goodwill, the loss of business, and the increase in administrative and storage costs.

The length of the delay in 1986 was apparently partly a result of a large increase in the number of countries utilizing PSI's 2/ and a lag in the PSI companies' abilities to keep up with the increase. However, the largest PSI company, SGS, alleges that this is no longer a problem, and has submitted tracking reports of specific shipments for specific companies to support this claim. 3/ Information from questionnaires indicates that the length of

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1/ See for example Ethyl Corp., comments to USTR, Oct. 8, 1986, p. 2; Apr. 14, 1987 submission by Johnson & Johnson, pp. 1-2; written statement by Rohm and Haas Co., Mar. 2, 1987, pp. 4-5; E.I. DuPont de Nemours and Co., comments to USTR, Oct. 7, 1986, pp. 2-4; and Bristol-Meyers, comments to USTR, Oct. 7, 1986 p. 2 of executive summary.

2/ Three countries instituted PSI programs in 1985, seven did so in 1986.

3/ ***.

processing is still significantly higher for shipments to countries requiring PSI than to countries that do not. 1/

Confidentiality

Members of the chemical industry have indicated concern that before they will issue a Clean Report of Findings, PSI firms often require access to information U.S. exporters consider confidential. 2/ Exporters claim that the information requested by the inspection companies, such as prices to individual customers, specific contractual arrangements, product formulas, and information as to how a price was calculated, is not generally available to the public, 3/ and is considered confidential business information by many firms and even by agencies of the U.S. Government.

SGS responds that the information they require is often available to many other persons and organizations such as customs services, banks, exporters, insurance companies, and others. Moreover, SGS contends that the information they request, including such things as the information on the invoice, the letter of credit, the contract, price lists, detailed product descriptions and the like are ". . . not the stuff about which the usual claims of confidentiality are made, . . ." 4/

Members of the chemical industry have expressed concern that there appears to be no contractual or legal constraint on the PSI companies to maintain the confidentiality of the material entrusted to them. 5/ Some firms have apparently been able to allay these concerns by making informal arrangements with PSI companies on a case-by-case basis. 6/

1/ In their questionnaire responses, exporters in all industries reported that in 1986, 54.5 percent of their shipments to Ecuador were delayed because of PSI, with average delays 28 days; delays occurred in 48 percent of shipments to Venezuela, with the average delay 17 days. Some U.S. companies actually experienced a reduction in the time and cost involved in exporting to Indonesia as a result of PSI. See Ch. 3 for further details.

2/ See statement by Johnson & Johnson, Apr. 14, 1987, p. 1; statement of Stauffer Chemical, Apr. 8, 1987, p. 3; statement of the Chemical Manufacturers Association, Mar. 2, 1987, p. 9.

3/ The comments of Eli Lilly were fairly typical: "Price structure information which has been requested relates to direct sales to product users, sales through different distribution channels, as well as supply of finished products and bulk active substances to affiliates companies. Such information is highly confidential from a business standpoint and therefore, is not published for general consumption." Comments to USTR by Eli Lilly International Corp., Oct. 2, 1986, p. 1. See also commments to USTR by Wyeth International Ltd., p. 2.

4/ SGS posthearing brief, p. 22.

5/ See for example Oct. 8, 1986 comments by Ethyl Corporation to USTR, p. 2; statement by Rohm and Haas Co., Mar. 2, 1987, pp. 2-4; comments by DuPont to USTR, Oct. 7, 1986, p. 3.

6/ Comments by DuPont to USTR, Oct. 7, 1986, p. 3; comments by Merck Sharp & Dohme International to USTR, Oct. 7, 1986, p. 3; comments by Monsanto to USTR, Oct. 6, 1986, p. 1.

Some firms have suggested that procedures used by inspection firms to develop acceptable price ranges can reveal sensitive information about their competitors' costs and pricing strategies. 1/

Chemical industry members also point out that documentation of a breach would be very difficult, and that since, with the exception of Venezuela, there is only one PSI company in a given country, the only choices appear to be to risk a breach of information they consider confidential or to stay out of the market. At least one chemical industry executive has indicated that excessive concern by some companies could impede initiating or expanding international trade with countries requiring PSI.

The Commission received one submission that documented an allegation of a breach of confidentiality by a PSI company. 2/ FMC Corp., in a posthearing statement dated April 16, 1987, claimed that a breach of confidentiality resulted in information being disclosed to a competitor, Chevron Chemical. FMC states that the information was identical to a packet of information forwarded to the PSI company SGS, and alleges that SGS sent the packet to Chevron. 3/ FMC has indicated that it requested that SGS sign a secrecy agreement regarding data FMC sent to SGS and SGS declined. 4/

Discrimination or nonuniform application

There does not appear to be any factual evidence in the record indicating that the PSI companies have intentionally acted to discriminate either for or against the products of U.S. chemical companies. However, several chemical industry members have indicated that in practice they have found significant differences in the implementation of PSI procedures. These differences were attributed to differences in personnel and to different procedures at different locations within the United States and in other foreign countries. In addition, the exports of some European countries that are competitors of U.S. chemical firms in PSI markets, particularly markets in Latin America and the Caribbean (see tables 2-12 and 2-13), may not be subject to the same PSI procedures. Both West Germany and Switzerland have regulations that may limit

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1/ See for example Apr. 20, 1987, submission by Hercules International Trade Corp., Ltd., p. 1; written statement by Rohm and Haas Co., Mar. 2, 1987, pp. 3-4; Stauffer Chemical, comments to USTR, Oct. 1, 1986, p. 2; Submission by Ethyl Corp., Mar. 18, 1987, p. 2.

2/ The complaint is part of the public record. No rebuttal to this claim was received. The incident is reported as received.

3/ FMC posthearing statement, pp. 10-11 and app. B.

4/ Ibid.

Table 2-12.--Exports of chemicals by selected countries and country groups to PSI countries, 1985

(In thousands of dollars)

Country	Africa	Central America and South America	Other	Total
United States............	106,911	724,245	1,554,114	2,385,270
Europe 1/................	1,277,862	583,621	777,469	2,638,952
Japan....................	24,846	22,132	328,685	375,663

1/ Includes Belgium, Luxembourg, Denmark, France, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Switzerland, the United Kingdom, and West Germany.

Source: U.N. Trade Data System.

Table 2-13.--Exports of chemicals by selected European countries to PSI countries in Central America and South America, 1985

(In thousands of dollars)

Country	Central America and South America
Belgium and Luxembourg..............................	21,044
Denmark...	7,981
France..	67,958
Greece..	83
Ireland...	10,362
Italy...	73,679
Netherlands...	40,436
Portugal..	1,477
Spain...	28,822
United Kingdom......................................	79,107
West Germany..	188,449
Switzerland...	64,224
Total...	583,622

Source: U.N. Trade Data System.

.nformation available to inspection firms on prices. 1/ Some chemical firms :emain concerned that the potential for discrimination exists. 2/

\dministrative costs

Additional administrative burdens are alleged by several members of the :hemical industry to have added significantly to the cost of doing business vith countries that require PSI. These additional costs included personnel :osts for handling and storing the required information; telephone, postage, and other items involved in doing the extra paperwork required; costs for rescheduling of shipments caused by delays relating to the inspection process; and the like. Estimates of these costs by members of the chemical industry, in questionnaire responses and other submissions to the Commission, ranged from about $100 to about $700 per shipment.

Price review

Despite SGS' claims that it uses up-to-date, market based information and takes all relevant commercial considerations into account when developing acceptable price ranges for the chemicals industry, 3/ the review of prices by SGS and the other PSI companies is strongly objected to by the members of the chemical industry. 4/

1/ The West German regulations require prior authorization of preshipment price inspection activities. Under the regulations, inspection companies may not request certain business confidential information such as patent licencing agreements, contractual obligations such as price rebate arrangements, or an exporter's internal pricing data. However, the exporter may supply such documents on a voluntary basis. In Switzerland, inspection companies perform the quality and quantity inspections while the price component is subcontracted to a semi-public agency of the Swiss Government. See Ch. 4.

2/ FMC voiced this concern in its Apr. 16, 1987, posthearing statement, "information is collected on behalf of governments which either have entities competing with or are attempting to establish entities which will compete with FMC and similarly situated chemical producers. SGS has steadfastly declined to demonstrate why and how such data is not disclosed to such entities." p. 10-11.

3/ Submission by SGS, Apr. 24, 1987, pp. 24-30.

4/ In its Mar. 16, 1987, submission, the Pharmaceutical Manufacturers Association explains, "Of utmost concern to our industry is the inappropriate interference in pricing matters by these preshipment inspection companies. The preshipment inspection companies routinely and arbitarily pass judgement on pricing. The pre-shipment company will review both inter-company and third-party transactions. Experience indicates that often they will make country-by-country comparisons or company-by-company comparisons. . . References to the 'world market price' or 'prevailing export market prices' are often made. These prices usually bear no relationship to the exporting company's actual practices and are determined by the preshipment companies." pp. 2 and 5. Similar sentiments are expressed in the statement by the Chemical Manufacturers Association, March 2, 1987, pp. 6-7: "'Acceptable prices' are often set by private inspection companies without regard to existing contractual prices between the buyer and the seller and/or the size

(continued)

The comments by FMC were fairly typical of other submissions:

> Notwithstanding the SGS representation that it does not require cost information, in FMC's experience, when a price inquiry is raised, SGS generally asks for a justification of prices, leading inevitably to a broad discussion of transactions costs. Product pricing for the performance chemicals sold by FMC is a complex matter, the function of widely varying promotional, product development, technical service, product registration, packaging and many other costs. Price lists do not exist for such products. While the marketplace responds acccordingly to the pricing requirements imposed by such conditions, SGS on numerous occasions has rejected elements of FMC's costs as "inappropriate" under SGS's own inscrutable frame of reference. SGS mimimizes this aspect by noting that only 0.5 percent of its controlled transactions result in issuance of a non-negotiable report of findings. This is totally misleading since, as SGS knows, exporters have little choice but to agree to SGS price demands because otherwise they would have no sale at all. 1/

Chemical industry members allege that in practice PSI companies do not take into account certain relevant commercial considerations when determining acceptable price ranges. 2/ They also allege that PSI

(continued)
of a particular order, differences in shipping and other costs, variations in time that reflect market fluctuations as well as seasonal variations, differences in prices in shipments made to wholly-owned subsidiaries, and differences among what the private company inspectors may consider to be a like or similar product."

1/ Posthearing statement of FMC Corp., Apr. 16, 1987, pp. 12-13.

2/ For example, in its Oct. 8, 1986, comments to USTR, Ethyl Corp. alleges that in its experience "PSI companies have shown a complete disregard of different contractual terms with multiple customers in the same country of destination." (p. 2). In a later submission, Ethyl states, ". . .the private inspection companies do not allow for hardly any price differentials due to quantity, time of shipment, type of containers, modes of transportation, duration of contracts, and/or different terms in tender awards." Written statement by Ethyl Corp., Apr. 14, 1987, p. 6. Stauffer complains, "The Latin America Division has a published export price list. However, these prices can vary depending on the competitive situation, the volume purchased, country terms, credit worthiness of the customer, and the c.i.f. value (due to different ocean rates). As a sales manager of a highly reputable multinational corporation, I find it inconceivable that an outside firm should dictate prices and trade practices or expect that all prices for the same product should be equivalent to all customers." Letter to USTR by Christine R. Campel, Regional Sales Manager, Latin America Division, Stauffer Chemical, Oct. 1, 1987, p. 1. See also Bristol-Meyers' October 7, 1986 comments to USTR, pp. 1-2 of Executive Summary ***.

companies set arbitrary limits on certain charges. 1/ Finally, chemical industry representatives complain that the price review procedure is not transparent and is highly discretionary. 2/

Most pricing in chemicals sales are not rigidly tied to a published price list but are arrived at on a case-by-case basis. Published prices often are for one-time orders whereas regular contract customers almost always pay less than the published price. The published price, when it is used, is nearly always used only as a starting point in the process of arriving at the price of any individual transaction.

It also cannot be assumed that chemical A made by company X by process 1 is the same as chemical A made by company Y by process 2. In actuality, the chemicals might differ sufficiently in purity, percentage yield, crystalline form, and any of a number of other variables to make one product more desirable in a particular downstream process than the other product. This could result in significant pricing differences for what is obstensibly the "same" product.

In addition, chemical companies tend to provide customers with product formulation and evaluation assistance, process troubleshooting, marketing help, guaranteed delivery dates, special packaging requirements, and any number of other services. These services can often cause significant differences in prices to customers in the same general location, or even from shipment to shipment to the same customer. Such things as maximum assay guarantees for certain contaminants, whether the product is sold under a brand name or as a generic chemical, level of vertical and horizontal integration, the size and age of the facility, situational discounts, and a number of other factors can also affect the price in a particular transaction.

As noted previously, based on data supplied by the inspection companies in response to the Commission's questionnaire, chemicals accounted for 20 percent, or $572.2 million, of the value of U.S. exports inspected by PSI companies in 1986 (table 1-2). SGS accounted for *** percent of the value of U.S. chemicals exports inspected in 1986, Intertek accounted for *** percent, and Bureau Veritas, *** percent. Chemicals accounted for approximately 22.7 percent, or $7.97 million, of the $35 million in total price reductions

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1/ For example, on p. 3 of its Oct. 8, 1986, comments to USTR, Ethyl Corp. claims that PSI companies have proclaimed that "the amount indicated in a delivered price for ocean freight shall not exceed 10 percent of the delivered price." In its posthearing statement of Apr. 16, 1987, FMC claims, "With respect to a variety of 'price inspections', SGS has stated to FMC that permitted interest charges may only be those based on the current prime rate plus a 2 percent inflater multiplied by the term and divided by 360 days. Often this 'permitted' interest charge is 40-50 percent less that that normally charged exporters in the marketplace." App. A, p. 2. See also statement of Pharmaceutical Manufacturers Association, Mar. 16, 1987 p. 3; Merck Sharp & Dohme, International, comments to USTR, Oct. 7, 1986, p. 3; Celanese Corp., Feb. 11, 1987 submission, pp. 2-3; Stauffer Chemicals, comments to USTR, Oct. 1, 1986, p. 1.

2/ See Ethyl comments to USTR, Oct. 8, 1986, p. 3; statement by Johnson & Johnson, Apr. 14, 1987, p. 3; written testimony of Rohm and Haas, Mar. 2, 1987, p. 4; Bristol-Meyers, comments to USTR, Oct. 7, 1986, pp. 1-2 of Executive Summary.

reported by PSI companies in 1986 (table 1-7). According to the inspection companies, final settlement invoice prices were about 6.5 percent lower than original advisory document prices (table 1-7).

About *** percent of the price reductions in the chemical industry were accounted for by SGS (table 1-7). According to SGS, price reductions of ***, or about *** percent from the original invoice prices, were achieved. Chemicals accounted for *** percent, or ***, of the value of U.S. exports inspected by SGS in 1986 (table 1-2). SGS questioned prices in *** percent of the total number of shipments inspected for African countries and *** percent of the total number of shipments inspected for Latin American and Caribbean countries (table 1-5). SGS reported that out of all cases where it questioned invoice prices in 1986, exporters decreased their prices in *** percent of the cases involving African countries and *** percent of the cases involving Latin American and Caribbean countries (table 1-6).

Bureau Veritas, which accounted for *** percent, or *** of the shipments in which prices were lowered, reported an *** percent difference between initial and final prices for chemicals transactions in 1986 (table 1-7). Chemicals accounted for *** percent of the value of inspections performed by Bureau Veritas in 1986 (table 1-2). Bureau Veritas questioned prices in *** percent of the total number of shipments inspected for Guinea in 1986 and *** percent of the total number of shipments inspected for Venezuela (table 1-5). Price reductions were achieved in *** percent of the cases where price was questioned in Guinea and *** percent of the cases where prices were questioned in Venezuela (table 1-6).

Chemicals accounted for *** percent of the value of inspections performed by Intertek in 1986 (table 1-2). Intertek questioned prices in *** percent of the total number of shipments inspected for Nigeria and *** percent of the total number of shipments inspected for Venezuela (table 1-5). Price reductions resulted in *** percent of the cases where price was questioned in shipments to Nigeria and *** percent of the cases where price was questioned in shipments to Venezuela (table 1-6). Price reductions of *** percent were reported as a result of intervention by Intertek.

Lack of Review Process

Members of the chemical industry object to the fact that the formula for determining the acceptable price or price range is often not fully explained to them. They complain that the price range is often arbitrarily established by the PSI company with no mechanism or review process other than negotiation with the PSI company regarding disputes. As noted previously, some PSI companies have set up a review procedure, often involving appeals within higher levels of the PSI company itself. Exporters may also ask the foreign purchaser to seek reconsideration of the matter by the contracting Government. U.S. chemical firms complain that these mechanisms are inadequate and time-consuming.

CHAPTER 3. COUNTRY OPERATION OF PRESHIPMENT INSPECTION PROGRAMS

Introduction

This chapter describes the PSI programs of the countries covered in this study and U.S. exporters' experiences with inspections on their shipments to these countries. Each country section begins with a brief review of the country's external economic standing, its trade with the United States, and its mechanisms and institutions responsible for international trade. This serves as a backdrop for understanding the role of PSI, economically and administratively, within each importing country. The regulatory and contractual procedures governing each country's PSI program are then described. 1/ Finally, each country section includes an assessment of the problems and costs associated with the PSI program as reported by U.S. exporters. 2/ Although the Commission received a response rate of 80 percent to the exporters' questionnaires, the exporters did not report a significant amount of business with certain countries. Our ability to make meaningful statistical inferences about exporters' experiences with PSI programs in these countries is therefore limited. The countries for which this is a factor are: Burundi, Equatorial Guinea, Rwanda, and Uganda.

Information on 26 countries is provided, however not all have or will continue to have, PSI programs in effect. According to information obtained from the U.S. Embassy, the Congo did not require PSI of U.S. exports in 1986, but began inspections effective 1987. Also, Jamaica's PSI program is scheduled to end in January 1988 when Jamaica's current contract with SGS expires. ***.

Overview

Of the countries reviewed, the four largest traders each experienced total trade turnover, or combined exports and imports, of more than $20 billion in 1985 trade with the world (see app. G). 3/ These countries were Mexico, with a total 1985 trade turnover of $35.3 billion, Indonesia with $31.2 billion, Venezuela with $21.6 billion, and Nigeria with $21.3 billion. Thirteen other countries recorded trade turnovers ranging from $1 billion to $5 billion. Total trade of the remaining countries fell below $1 billion.

1/ Several sources were used to obtain information on the operation of individual country programs. Information was requested directly from U.S. embassies in countries requiring PSI. Country-specific information was presented in testimony at Commission hearings and in submissions from interested parties. Responses provided on Commission questionnaires sent to the inspection companies that perform PSI in the United States also provided country-specific information.

2/ This information was obtained from a Commission questionnaire sent to a sample of U.S. exporters and producers. For a description of the survey design and sample methodology, see app. E.

3/ Dollar signs ($) refer to U.S. dollars unless otherwise indicated.

Ten of the countries recorded overall merchandise trade deficits in 1985. Deficit countries included Burundi, Ghana, Guatemala, Haiti, Jamaica, Kenya, Madagascar, Paraguay, Rwanda, and Tanzania. The remaining 15 countries recorded overall trade surpluses, although in 4 of these countries trade surpluses were minimal, or less than $75 million (Equatorial Guinea, $3.7 million; Suriname, $15.7 million; Bolivia, $71.5 million; and Uganda, $72.0 million).

Most countries reviewed have as a key objective of their PSI program the conservation of the limited foreign exchange available to pay for imports and repay international debt. For this reason, statistics on the reserve standing and foreign indebtedness are included in the country profiles. Figures for 1984, the latest available year, on gross international reserves 1/ and total external debt for 20 of the countries 2/ are presented in appendix H.

In seven countries, the ratio measuring months of imports covered by 1984 levels of international reserves shows that reserves are inadequate to cover 1 month of imports. For six additional countries, reserves represent import coverage of less than 3 months. These ratios are low compared with the average 1984 reserve ratio of 2.9 months for indebted developing countries. 3/ Finally, seven of the countries have reserves sufficient to cover more than 3 months of imports of goods and services, with Venezuela's ratio highest at 11 months.

As is the case with most developing countries, external debt of the countries surveyed is substantial. Four of the countries, namely Mexico, Indonesia, Venezuela, and Nigeria, carried external liabilities ranging from $19 billion to $97 billion in 1984. Fourteen additional countries registered external debt ranging from $1 billion to $8 billion in 1984. One ratio for comparing the degree of indebtedness measures the value of annual export receipts against the total external debt in 1 year. For 11 of the countries reviewed, 1984 external indebtedness represented at least two or three times the value of annual export receipts. This compared with the average 1984 debt/exports ratio for indebted countries of 1.9 times the annual value of exports. 4/

Trade with the United States

The countries reviewed accounted for about 9 percent of total U.S. exports in 1986. 5/ Two of these countries are among the United States' top 20 export markets; Mexico is the third largest consumer of U.S. exports, importing 5.8 percent of total U.S. exports, and Venezuela is the eighteenth

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1/ Gross international reserves are the sum of a country's holdings in foreign exchange, gold, and IMF special drawing rights and reserves.

2/ Total external debt is the sum of public long-term debt, private nonguaranteed debt, short-term debt, and the use of IMF special drawing rights.

3/ The World Bank, World Debt Tables: External Debt of Developing Countries, 1985-1986 Edition, p. 5.

4/ Ibid.

5/ If Mexico, whose PSI program covers only a portion of Government purchases, is excluded from this figure, U.S. trade with the remaining PSI countries represents about 3.4 percent of the total U.S. trade.

largest U.S. export market, taking 1.5 percent of total U.S. exports. Only 6 other PSI countries rank among the top 60 U.S. export markets. These countries are, in order of magnitude, Indonesia at 34th, Ecuador ranked 46th, Jamaica at 53rd, Nigeria at 57th, Guatemala at 59th, and Haiti, ranked 60th in 1986.

The share of total U.S. exports to each of these six countries range between 0.18 percent and 0.44 percent. All other PSI countries each import 0.06 percent or less of total U.S. exports. Figures on U.S. trade with these countries are presented in appendix I. The United States recorded a trade surplus in both 1985 and 1986 with five of the 26 countries--Haiti, Jamaica, Paraguay, Suriname, and Tanzania. In 1985, the United States also experienced a trade surplus with Bolivia, Burundi, Equatorial Guinea, and Zambia.

Country preshipment inspection programs

Over a third of the countries with PSI programs began the practice in the 1970's. Nearly one-third more initiated PSI programs in the early 1980's. However, in 1985 and 1986, several more countries developed PSI programs, mostly in Latin America. Because of the greater volumes of U.S. trade involved, as the Latin American countries instituted the practice U.S. exports became more frequently exposed to PSI requirements. Combined U.S. exports to Bolivia, Ecuador, Guatemala, Jamaica, and Venezuela, where PSI programs were recently instituted, account for 64 percent of exports to all countries under review, excluding Mexico. 1/

Many of the PSI countries have trade regimes that include complex import licensing and foreign-exchange licensing systems. In these countries, PSI is implemented under regulations governing such licensing systems and is used as a check on the validity of license applications against the actual imports involved. These systems often allocate licenses on the basis of national economic priorities that are intended to achieve a desired composition of imports, or priority distribution of foreign exchange. Necessities such as medicine, spare parts, and industrial inputs usually top the list of import priorities. Imports that are not considered necessities by the Government or are domestically available are generally low on the list of priorities or may be prohibited altogether. These licensing procedures and import restrictions, together with high tariffs and a variety of other import fees, taxes, and surcharges, form the main components of the trade regimes that U.S. exporters must deal with in trading with these countries.

For many of the countries concerned, the PSI programs are roughly similar in purpose and operation. Most countries have instituted PSI programs as part of foreign-exchange controls to prevent waste or abuse in the allocation of limited foreign exchange. Normally, the countries' Central Banks and/or finance ministries are responsible for implementation and oversight of PSI. Most countries contract with one company, predominantly SGS, to perform PSI on behalf of the Governmment. Only in the case of Indonesia is the inspection

1/ U.S. exports to Mexico are excluded for the purpose of this calculation since such a small proportion of overall exports to Mexico are subject to PSI.

company authorized to perform a customs valuation service. If presentation of the PSI reports of findings is required at customs, this is most commonly a mechanism to ensure that PSI requirements are met rather than an element of a particular customs function. In cases where nonnegotiable inspection reports are issued and there is disagreement with the inspection company's determination, at least 12 countries allow appeal to the Central Bank or finance ministry for a final determination.

As mentioned in chapter 1, a few countries represent exceptions to the general practice. Indonesia and Mexico are exceptions in terms of the purpose for which PSI is used. In addition to normal CISS requirements, Indonesia retains SGS to perform customs functions. Mexico contracts SGS for inspection of designated public sector import purchases as a means of ensuring against fraud in Government procurement. In terms of implementation of PSI, Venezuela and Nigeria are exceptions to the practice of contracting exclusively with one company. Venezuela has authorized, rather than contracted with, three inspection companies from which importers may choose to perform PSI. Nigeria has contracted with three inspection companies and has designated each company to perform inspections in a particular world region.

Angola

Trade with the world

Angola's 1985 trade activity with the rest of the world totaled $3.5 billion. With total exports valued at about $2.2 billion and imports at $1.3 billion, Angola's trade account recorded a surplus of $871 million.

Trade with the United States

Total U.S. exports to Angola in 1986 amounted to $86.1 million or approximately 0.04 percent of the total U.S. exports (table 3-1). In the same year, Angola exported 677.5 million dollars' worth of goods to the United States, providing the United States with a bilateral trade deficit of $591.3 million with Angola. In 1984 and 1985, the U.S. deficits with Angola were over $900 million. The largest category of U.S. exports to Angola in 1985 and 1986 were machinery and transportation equipment, valued at $94.8 million in 1985, or 69 percent of total U.S. exports, and $47.2 million in 1986, or a reduction to 55 percent of U.S. exports to Angola. In 1985, metals and metal products ranked second at $15.7 million. In 1986, animal and vegetable products, valued at $20.5 million, were the second largest category of U.S. exports.

Government trade administration

All imports are subject to licensing by the Licensing Department of the Ministry of Foreign Trade. Once obtained, the import license is delivered to the Director of International Operations at the Banco Nacional de Angola (BNA), for foreign exchange approval.

Table 3-1.--Value of total U.S. exports to Angola, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1...........	Animal and vegetable products..............	11,446	20,529
2...........	Wood and paper: printed products...........	221	137
3...........	Textile fibers and textile products........	73	62
4...........	Chemicals and related products.............	5,161	2,943
5...........	Nonmetallic minerals and products..........	192	2,090
6, pts. 1-3	Metals and metal products..................	15,713	5,180
6, pts. 4-6	Machinery and transportation...............	94,824	47,193
7...........	Miscellaneous and nonenumerated products...	5,354	4,437
8...........	Special classifications division-Other.....	3,837	3,558
	Total................................	136,821	86,129

Source: Compiled from official statistics of the U.S. Department of Commerce.

Preshipment inspection program

On February 15, 1980, the Government published Decree No. 18/80 of the Council of Ministers requiring PSI of imports into Angola. The contract between BNA and SGS entered into force on March 1, 1980. 1/ The "Importers General Rules" published by the BNA note that "as a consequence of this contract there will be a more effective control of the use of the country's foreign exchange." 2/

Once the importer obtains an import license, copies must be forwarded to the BNA to initiate banking operations. The BNA Director of International Operations then states on the license whether or not PSI is required. If PSI is required, the Angolan importer must so stipulate in the sales contract with the foreign seller. 3/ This clause alerts the seller that a CRF must included in the final documents presented to the BNA to effect payment for the shipment.

Rules issued by BNA state that a NNRF can be issued if the quality of a shipment is determined by SGS to be unsatisfactory, if the quantity of goods does not conform to contractual specifications, and if the invoice price is determined by SGS to be "unacceptable." 4/ In the first two instances, SGS is authorized to cancel the NNRF and issue a CRF if the seller corrects the quality or quantity discrepancies. SGS is authorized to approve a price that exceeds that stated in the import license by up to 20 percent. In the case of price discrepancy, SGS is also authorized to replace the NNRF with a CRF if the seller adjust the invoiced price to an acceptable level. However, the Government does provide for an appeal process through BNA in instances where SGS and the seller do not agree as to price. The importer may represent arguments of the seller regarding price matters to the BNA. The arguments are considered, in relation to the SGS report, and BNA's decision is then communicated to the importer. 5/ A CRF is not required for customs clearance at port of entry. The BNA guidelines indicate that the importer must alert the seller not to ship unexempted goods issued an NNRF because payment will not be allowed.

Exemptions.--PSI is not applied to donations or supplies for diplomatic and consular posts and United Nations agencies. 6/ **** 7/ The Commission received no information indicating that Angola exempts shipments from PSI on the basis of country of origin or supply. ***

1/ ***
2/ Banco Nacional de Angola, "Importers General Rules," Feb. 18, 1980.
3/ Ibid.
4/ Ibid.
5/ Ibid.
6/ Ibid.
7/ ***

*   *   *   *   *

*** 1/

Performance of the program.--The Commission was unable to obtain information on the Angolan public and private sector reaction to the program.

U.S. Department of Commerce data

The total number of U.S. shipments to Angola in 1986 was 2,478. (The size of shipments and size distribution of shipments during 1986 are presented in table 3-2.) Approximately 65 percent of shipments ranged from $1,001 to $10,000. Over 89 percent of all shipments were $50,000 or less. Twenty-two percent of the total value of all shipments (38 percent of the total number) were made to related parties.

Table 3-2.--Percent of total number of shipments to Angola, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
(Dollars)	
$1,001 to $5,000	45.1
$5,001 to $10,000	19.6
$10,001 to $25,000	17.0
$25,001 to $50,000	7.7
$50,001 to $100,000	4.9
More than $100,000	5.6

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general License.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters.

The total value of U.S. exports to Angola of the sampled respondents amounted to approximately $3.6 million, or approximately 4 percent of the total value of all U.S. exports to Angola in 1986. Thirty-five percent of the value of reported shipments to Angola in 1986, valued at $1.3 million, were inspected. The total number of shipments reported was 205, of which 56 were estimated inspected. 2/

1/ ***.
2/ The figure on shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

<u>Cost of preshipment inspections.</u>--Of total inspected shipments, exporters reported that delays occurred in 35.5 percent of the number of shipments to Angola in 1986 (as shown in the tabulation below). The total value of shipments subject to delay amounted to $210,000. The average length of delay was 19 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.35 percent of the value of delayed shipments, or less than $40 per shipment delayed.

Information on lost revenues and other costs of PSI was not provided in questionnaire responses.

Total average cost per inspected shipment to Angola is $413.80. Total costs of inspection represents 1.8 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Angola, inspection costs represent 0.6 percent.

Type of cost	Percent of number inspected	Average cost	Estimated average cost per inspected shipment
Personnel cost ...	100	$400.67	$400.67
Delays............	35.5	37.00	13.13

Bolivia

Trade with the world

Bolivia's total trade activity during 1985 amounted to approximately $1.2 billion. Bolivia recorded an overall trade surplus reflecting $551.9 million in total imports and $623.4 million in total exports.

In 1984, Bolivia held $533 million foreign-exchange reserves, enough to cover 5.8 months of imports. During the same period, Bolivia reported $3.9 billion in total external debt--467.4 percent of the value of all goods and services exported for the year.

Trade with the United States

Total U.S. exports to Bolivia in 1986 amounted to $108 million, or approximately 0.05 percent of total U.S. exports (table 3-3). However, in 1985, U.S. exports to Bolivia--valued at $116 million--accounted for 21 percent of Bolivia's imports. In 1986, Bolivia exported 123 million dollars' worth of goods to the United States, providing the United States with a bilateral trade deficit of $15 million with Bolivia. The 1986 trade pattern between the United States and Bolivia showed a marked difference from that in 1985. In 1985, trade data revealed a U.S. trade surplus with Bolivia of $17 million. The largest categories of U.S. exports to Bolivia in 1986 were machinery and transportation equipment, valued at $55.3 million, or 51 percent of the total U.S. exports to Bolivia, and animal and vegetable products, valued at $30.0 million, or 28 percent of total U.S. exports to Bolivia.

Table 3-3.--Value of total U.S. exports to Bolivia, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	26,917	29,961
2..........	Wood and paper: printed products...........	1,014	497
3..........	Textile fibers and textile products........	2,229	3,930
4..........	Chemicals and related products.............	7,353	4,685
5..........	Nonmetallic minerals and products..........	2,722	2,062
6, pts. 1-3.	Metals and metal products..................	3,223	1,358
6, pts. 4-6.	Machinery and transportation...............	61,701	55,340
7..........	Miscellaneous and nonenumerated products...	6,126	5,069
8..........	Special classifications division-Other.....	5,155	5,190
	Total..............................	116,441	108,092

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The Ministry of Finance and the Central Bank are together responsible for approving public sector purchases of foreign exchange for debt service payments. The Central Bank also is charged with enforcing export proceeds surrender requirements and other exchange-control regulations.

One official exchange rate, determined by a daily auction, is applied to all foreign-exchange operations. The auctions were first established in August 1985, following a series of dramatic devaluations during the year. 1/

Bolivia's system of import licensing and allocation of foreign exchange for imports was abolished in August 1985. 2/ All goods may now be freely imported into and exported from Bolivia. 3/ Import tariffs were also lowered in 1985 to 10 percent plus 10 percent of the previous tariff rate. Also, a service levy of 2 percent applies to most imports and a tax of 14 percent applies generally to merchandise imports.

Preshipment inspection program

In January 1986, the Bolivian Government announced its decision to contract the services of SGS to inspect both import and export transactions. The announcement noted that imports and exports were vulnerable to overbilling and underbilling practices harmful to the economy, and cited the country's lack of adequate price controls. 4/ ***. 5/ On August 1, 1986, the inspection program went into effect. 6/

The Finance Ministry and the Central Bank are the parties to the contract with SGS and are responsible for overseeing the import/export surveillance scheme. Inspection requirements apply to both private and public sector imports and exports. Upon favorable inspection results, SGS issues a "certificate of conformity." If discrepancies are found, SGS issues a "notice of nonconformity."

Since import and foreign-exchange licensing has been abolished, the importer initiates the inspection process by applying directly to the SGS office of Bolivia to verify the proposed import. SGS then remits a copy of the application to the Ministry of Finance. 7/ Imports are inspected in the country of origin and are rechecked by SGS upon arrival in Bolivian ports to confirm shipment and to verify the accuracy of the findings "as per the notice of conformity." 8/ Exports are inspected in Bolivian territory prior to shipment. Both imports and exports are subject to price comparison. A certificate of conformity is essential to customs clearance for imports and to the processing of permits for exports. If a certificate of nonconformity is issued, the Finance Ministry is authorized to resolve protests raised by

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1/ The first auction established an exchange rate of 1,150,000 Bolivian pesos to the U.S. dollar, a steep devaluation from the February rate of 8,571 pesos to the dollar.

2/ Supreme Decree No. 21060, Aug. 29, 1985.

3/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 131. Sugar, however, remains temporarily subject to import licensing.

4/ Official Gazette of Bolivia, Supreme Decree No. 21170, Jan. 20, 1986.

5/ ***.

6/ Ministerial Resolution No. 1184, July 30, 1986.

7/ Ministerial Resolution No. 1034, July 9, 1986.

8/ Ibid.

suppliers or exporters. 1/ SGS forwards copies of certificates of conformity or nonconformity to, among others, the Central Bank and the Ministry of Finance.

Fees associated with the inspections of imports are 1.4 percent of the value of imports and 1.1 percent for exports inspected during the first year of PSI operation only. Thereafter, SGS fees are 1.5 percent of the value of shipments inspected for imports and 1.2 percent for inspected exports. The inspection fees are charged to the importer. Initially, the Government indicated that the inspection fee should be paid by the Central Bank on behalf of the Bolivian importers and exporters, whose accounts would be debited. 2/ A later decree amended the payment method such that the importer would pay the inspection fee directly to the inspection company, whereas Bolivian exporters' fees would be paid out of the General Treasury without charge to the exporters. 3/ Finally, the Government decreed that the importers shall pay inspection fees through deposit in a cumulative account to be credited to SGS. 4/

*   *   *   *   *

*** 5/

Exemptions.--Both *** and a Government decree issued in March 1986 indicate that imports worth less than $5,000 are exempt from PSI requirements. 6/ However, later documents adjust this minimum level to $1,000 in order "to reach the desired operability in the functions of the convenantor company," i.e. to cover 80 percent of Bolivian trade, as noted above. 7/ Quality inspections are not performed on pharmaceutical products, dyes, paints, chemical products for the protection of crops, insecticides, cosmetics, wines, liquors, and special chemical products.

Products completely exempted from inspection include the following: imports and exports between governments of petroleum and its byproducts; works of art; weapons, military equipment and supplies; personal belongings; gold and precious stones; live animals; postal packages, periodicals, books, magazines, and other printed material; and perishable goods and foods. 8/

1/ Supreme Decree No. 21170 of Jan. 20, 1986 mentions the Central Bank in this regard but amendments in Supreme Decree No. 21315, July 2, 1986, name the Finance Ministry.

2/ Supreme Decree No. 21170, Jan. 10, 1986.

3/ Supreme Decree No. 21191, Mar. 3, 1986.

4/ Supreme Decree No. 21315, July 2, 1986.

5/ ***.

6/ Supreme Decree No. 21191, Mar. 13, 1986.

7/ Export shipment inspections are not subject to a minimum value level--all exports are inspected, Supreme Decree No. 21315, July 2, 1986.

8/ Ministerial Resolution No. 1034 of the Finance Ministry, on July 9, 1986, outlines the tariff headings of those items falling under this category.

Performance of the program.--

*   *   *   *   *

***. 1/

*   *   *   *   *

***. 2/

U.S. Department of Commerce data

The total number of U.S. shipments to Bolivia in 1986 was 5,675. (The size of shipments and size distribution of shipments during 1986 to Bolivia are presented in table 3-4.) Seventy percent of shipments were $10,000 or less. Over 94 percent of all shipments were $50,000 or less. Eight percent of the total value of all shipments (9 percent of the total number) were made to related parties.

Table 3-4.--Percent of total number of shipments to Bolivia, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
(Dollars)	
$1,001 to $5,000	52.6
$5,001 to $10,000	17.8
$10,001 to $25,000	17.5
$25,001 to $50,000	6.6
$50,001 to $100,000	3.1
More than $100,000	2.4

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

1/ ***.
2/ ***.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Bolivia of the sampled respondents amounted to $7.6 million, or 7 percent of the total value of all U.S. exports to Bolivia in 1986. Twenty-four percent of the value of reported shipments to Bolivia in 1986, valued at $1.8 million, were inspected. The total number of shipments reported was 362, of which 176 were estimated inspected. 1/

Lost revenues.--Exporters reported that in 0.5 percent of the number of inspected shipments to Bolivia, they were required to reduce the price of their exports. The total value of these shipments amounted to $18,000 before the price change and $9,000 after the price change, resulting in a loss of revenue of $9,000, or 50 percent of the total value of the affected shipments.

Cost of preshipment inspections.--Of the total number of inspected shipments to Bolivia, exporters reported that 51.1 percent of their shipments incurred delays (see table 3-5). The total value of such shipments amounted to $1.1 million. The average length of delay was 30 calendar days.

Table 3-5.--Estimated average cost per inspected shipment to Bolivia

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.00	$ 400.67
Delays	51.1	68.00	34.75
Courier fees and telephone calls	11.3	60.81	6.90
Charges for letter of credit discrepancies	1.1	25.00	0.34
Demurrage charges	0.0	0.00	0.00
Other	2.8	87.50	2.48
Total average costs:			
Per shipment inspected	-	-	445.14
As a percent of weighted average value of inspected shipments 2/	-	-	4.3

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Bolivia is $10,380.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

1/ The figure for inspected shipments is estimated from data supplied by exporters in response to the Commission Questionnaire.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.53 percent of the value of delayed shipments, or $68 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $61 per affected shipment. Charges for letter of credit discrepancies occurred for 1.1 percent of inspected shipments to Bolivia and cost an average of $25 per affected shipment.

Total average cost per inspected shipment to Bolivia is $445.11. Total costs of inspection represents 4.3 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Bolivia, inspection costs represent 1.0 percent.

Burundi

Trade with the world

In 1985, Burundi's trade activity with the rest of the world totaled $295 million. Total imports were $177 million and total exports were $119 million, resulting in an overall 1985 trade deficit of $58 million.

Burundi held foreign-exchange reserves of $25 million in 1984. During the same year, total external debt totaled $307 million.

Trade with the United States

In 1986, the United States exported goods to Burundi valued at $1.7 million (table 3-6). U.S. exports to Burundi dropped by 73 percent from 1985 to 1986. The only major category of U.S. exports to the country in 1986 was machinery and transportation equipment valued at $1.1 million, or 63 percent of total U.S. exports to Burundi.

Table 3-6.--Value of total U.S. exports to Burundi, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	2,199	2
2..........	Wood and paper: printed products...........	11	5
3..........	Textile fibers and textile products........	92	0
4..........	Chemicals and related products.............	37	0
5..........	Nonmetallic minerals and products..........	0	10
6, pts. 1-3	Metals and metal products..................	0	0
6, pts. 4-6	Machinery and transportation...............	962	1,065
7..........	Miscellaneous and nonenumerated products...	355	69
8..........	Special classifications division-other.....	2,515	531
	Total................................	6,170	1,683

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The Bank of the Republic of Burundi, the Central Bank, quotes rates of exchange for the currency of Burundi, and authorized banks undertake exchange transactions. The Central Bank processes import licenses, which are required for all imports, and, once approved, constitute permission to obtain foreign exchange. 1/

1/ International Monetary Fund, Annual Report or Exchange Arrangements and Exchange Restrictions 1986, pp. 148-149.

Preshipment inspection program

Burundi's PSI program dates from July 1978 and, with certain exceptions, subjects all import shipments over FBu500,000 (approximately $4,400 at 1986 average rates of exchange) in value to inspections of price, quantity, and quality by SGS prior to shipment to the country. 1/ A CRF by SGS is required before payment for imports can be made.

Exemptions.--Countries exempted from Burundi's inspection requirement are as follows: Afars and Issas Territory (Republic of Djibouti), Afghanistan, Albania, Burundi, Cameroon, Central African Empire, Chad, the People's Republic of China, Gabon, Guinea, Iraq, North Korea, Laos, Liberia, Libya, Mali, Niger, Seychelles and Comoro Island, Sierra Leone, Somali Democratic Republic, South Africa, Syria, Tanzania, Uganda, Upper Volta, U.S.S.R., Vietnam, Yemen Arab Republic, the People's Democratic Republic of Yemen, and Zaire.

Products exempted from the inspection and licensing requirements are samples of no commercial value; baggage and travel articles of passengers; donations, supplies for diplomatic missions, and supplies for U.N. agencies; goods not for sale, the value of which is less than FBu50,000 (about US$440) declared for domestic use. 2/ In addition, the Bank of the Republic of Burundi reserves the right to exempt goods and categories of goods from the inspection requirement.

Performance of the program.--* * * * *

***. 3/

U.S. Department of Commerce data

The total number of shipments to Burundi in 1986 was 90. (The size of shipments and size distribution of shipments during 1986 to Burundi are presented in table 3-7.) Sixty-seven percent of shipments ranged from $1,000 to $10,000. Over 96 percent of all shipments were under $50,000. Four percent of the total value of all shipments (6 percent of the total number) were made to related parties.

The total value of U.S. exports to Burundi of the sampled respondents amounted to $229,000, or 14 percent of the total value of all U.S. exports to Burundi in 1986. Eighty-two percent of the value of reported shipments to

1/ Bank of the Republic of Burundi, Regulation C, Imports, ch. 2, sec. 2, art. 20(2) July 3, 1978.
2/ Ibid., ch. 1, art. 1, July 3, 1978.
3/ ***.

Table 3-7.--Percent of total number of shipments to Burundi by ranges of values in 1986

Value of shipments 1/	Percent of total number of shipments 2/
(Dollars)	
$1,001 to $5,000	47.8
$5,001 to $10,000	18.9
$10,001 to $25,000	22.2
$25,001 to $50,000	7.8
$50,001 to $100,000	2.2
More than $100,000	1.1

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general License.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Burundi in 1986, valued at $187,780 were inspected. ***. 1/

Problems and costs reported by U.S. exporters

Lost revenues.--* * * * *

Costs of preshipment inspections.--* * * *

* * * * *.

* * * * *.

* * * * *.

1/ The figure for inspected shipments is estimated from data supplied by exporters in response to the Commission Questionnaire.

Table 3-8.--Estimated average cost per inspected shipment to Burundi

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	***	***	***
Delays	***	***	***
Courier fees and telephone calls	***	***	***
Charges for letter of credit discrepancies	2/	2/	2/
Demurrage charges	2/	2/	2/
Other 3/	***	***	***
Total average costs:			
Per shipment inspected	-	-	***
As a percent of weighted average value of inspected shipments 4/	-	-	***

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Information not reported on questionnaire responses.
3/ Respondents listing "other" costs for shipments to this country did not indicate what those costs represented.
4/ Estimated average value of inspected shipments to Burundi is $170,820.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Congo

Trade with the world

Congo's 1984 trade turnover amounted to $1.9 billion. Total exports of $1.3 billion against total imports of $618 million contributed to the country's overall 1984 trade surplus of $652 million.

Congo's total foreign-exchange reserves held in 1984 totaled $12 million, sufficient to cover 0.1 month of imports. In 1983, the country's total external debt was $1.7 billion, representing 144.7 percent of the value of exports of goods and services. 1/

Trade with the United States

During 1985-86, the total value of U.S. exports to the Congo decreased by 48 percent from $19.3 million to $10.1 million (table 3-9). The largest product category exhibiting a decline during this period was machinery and transportation equipment, which dropped from $15.0 million in 1985 to $6.4 million in 1986, or by 57 percent. Other major export categories in 1986 included miscellaneous products, valued at $2.1 million; chemicals and related products, valued at $610,000; and animal and vegetable products, valued at $493,000.

Table 3-9.--Value of total U.S. exports to the Congo, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1	Animal and vegetable products	809	493
2	Wood and paper: printed products	2	19
3	Textile fibers and textile products	8	361
4	Chemicals and related products	362	610
5	Nonmetallic minerals and products	2	11
6, pts. 1-3	Metals and metal products	1,677	0
6, pts. 4-6	Machinery and transportation	14,988	6,422
7	Miscellaneous and nonenumerated products	1,000	2,066
8	Special classifications division-other	453	115
	Total	19,302	10,097

Source: Compiled from official statistics of the U.S. Department of Commerce.

Preshipment inspection program

In response to the Commission's request for information in this investigation, the U.S. Embassy in Brazzaville reported that "the Congo has no contracts with private firms for preshipment inspection of imports, nor does it have any other program for overseas preshipment inspection." 2/ None of

1/ Figures for 1984 were not available.
2/ ***.

the companies reported inspecting U.S. exports bound for the Congo. A report from the U.S. Embassy in Bonn, the Federal Republic of Germany, however, indicates that German goods bound for the Congo must be inspected by a firm called Socotec Industry Society. 1/ The International Monetary Fund reports without elaboration that "prior authorization" licenses are required for imports from all sources. 2/

However, a subsequent report from the U.S. Embassy in Brazzaville noted that effective May 1, 1987, the Government of the Congo entered into an agreement with the Swiss firm, Socotec, regarding preshipment inspection. For inspection, importers must submit import licenses and pay a fee of one-fortieth percent of the value of the imports. No other information on the details of the program were made available. 3/

U.S. Department of Commerce data

The total number of shipments to the Congo in 1986 was 555. (The size of shipments and size distribution of shipments during 1986 to the Congo are presented in table 3-10.) Seventy-two percent of shipments were $10,000 or less. Over 92 percent of all shipments were $50,000 or less. Eight percent of the total value of all shipments (12 percent of the total number) were made to related parties.

Table 3-10.--Percent of total number of shipments to the Congo, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
(Dollars)	
$1,001 to $5,000	56.2
$5,001 to $10,000	16.0
$10,001 to $25,000	14.8
$25,001 to $50,000	5.4
$50,001 to $100,000	4.7
More than $100,000	2.9

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general License.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

1/ ***.
2/ IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, p. 182.
3/ ***.

Problems and costs reported by U.S. exporters

Information on lost revenues, delays, and other costs of PSI for U.S. shipments to the Congo were not reported in the questionnaire responses.

Ecuador

Trade with the world

Ecuador's trade turnover in 1985 totaled $4.6 billion. Ecuador's total exports were $2.9 billion, and total imports were $1.7 billion, giving the country an overall trade surplus of $1.1 billion.

In 1984, Ecuador held foreign-exchange reserves valued at $739 million, enough to cover 2.7 months of imports. During the same year, total external debt totaled $8.3 billion.

Trade with the United States

In 1986 the United States experienced a unilateral trade deficit of about $882.3 million with Ecuador. In 1985 and 1984, U.S. trade deficits with Ecuador were higher at 1.2 billion and 1.0 billion, respectively. In 1986, total U.S. exports to Ecuador stood at $584 million (table 3-11). The two major export categories to Ecuador in 1986 were machinery and transportation equipment, valued at $245 million, or about 42 percent of total U.S. exports to Ecuador, and chemicals and related products, at $137 million, or 23 percent of total U.S. exports to that country.

Table 3-11.--Value of total U.S. exports to Ecuador, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	91,018	68,373
2..........	Wood and paper: printed products..........	37,888	44,290
3..........	Textile fibers and textile products........	29,857	18,233
4..........	Chemicals and related products.............	148,476	136,612
5..........	Nonmetallic minerals and products..........	5,286	6,245
6, pts. 1-3	Metals and metal products..................	10,215	14,343
6, pts. 4-6	Machinery and transportation...............	214,158	245,379
7..........	Miscellaneous and nonenumerated products...	32,683	38,356
8..........	Special classifications division-other.....	14,401	12,635
	Total..................................	583,982	584,469

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

Until recently, Ecuador maintained a dual exchange-rate system, with an official rate and a parallel market. The two-tiered exchange rate was in effect when the inspection contract with SGS was negotiated. 1/ The Monetary Board of Ecuador has authority over transactions in both markets, and plays an important role in import policy. The Central Bank controls the official market, foreign exchange allocation, and issues import and export licenses. Import licenses require, among other factors, prior ministerial approval before issuance. A CRF from SGS is required for importers to obtain foreign exchange to pay for imports. 2/

Preshipment inspection program

The SGS inspection agreement covering both imports and exports was contracted with the Central Bank of Ecuador on October 30, 1984. The program came into effect on March 1, 1985. The Central Bank, with the assistance of the Ministry of Industry, Commerce, Trade, Integration and Fishing, oversees the contract. The contract may be renewed yearly by tacit agreement.] 3/ The stated objectives of the contract are to "render technical services leading to the elimination of overcharging of import invoices, undercharging of export invoices, illegal costs in charter fees and also to eliminate and fight against unlawful imports and exports and to improve fiscal collection." 4/ To that end, SGS is contracted to provide price, quantity, and quality inspection on all goods to be imported and exported by Ecuador. A CRF by SGS is necessary before foreign-exchange payment may be made for imports. In addition, inspected goods must independently clear Ecuadorean customs. A CRF by SGS does not substitute for any customs procedures. 5/ ***. 6/

1/ ***. With a significant spread between the main rates, overinvoicing of imports was estimated to average 20 percent, and underinvoicing of exports 30 percent. Economic reforms instituted in August 1986, including floating of exchange rates, may have decreased some incentive for overinvoicing and underinvoicing. ***.

2/ International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, pp. 204-205.

3/ Contract, ch. 7.24.

4/ Contract, ch. 1.1.

5/ ***.

6/ ***.

In late 1986, the Government of Ecuador stated that the program was required for fraud prevention in Ecuador's international trade dealings. 1/ ***. 2/ According to the contract, the price inspections involve "comparison of prices accepted by the importer with the ones in force in the market of the selling or buying country and in the international market." 3/ Further, the SGS price inspection is used to "determine according to the general conditions in force, the acceptable cost for selling the goods discussed." 4/ In the case of centrally planned economies, SGS reserves the right to "compare orders on an international basis." 5/ In the contract, SGS agreed to undertake inspections in a manner such that "quantified benefits obtained from inspections, show the goodness of the system and represent a substantially higher foreign currency amount than the cost of service." 6/ The fee charged by SGS is 2.0 percent of the f.o.b. value of the imports inspected, and 1.0 percent of the value of exports inspected, with SGS pledging "to pay the corresponding income tax." 7/

Exemptions.--The following goods are exempted from the inspection requirement: petroleum and its derivatives (fuels); objects of art; live animals; arms; periodicals; magazines; personal effects and household goods; and postal packages.

Performance of the program.--The contract binds SGS to submitting results of the program on a bimonthly basis. The reports are to include changes made in purchase and sales prices from those accepted by the exporter or importer, "corrections in quality," i.e., replacing damaged or lacking goods, replacing used with new goods, or obsolete with modern goods. Foreign currency commissions and NNRF are also to be included in the reports. 8/ The Central Bank has stated that during the first 2 months of operation of the inspection

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1/ Memorandum from the Embassy of Ecuador, Washington DC, to the United States Trade Representive, Sept. 18, 1986, in reference to the sec. 301 petition on PSI practices. ***.

2/ ***.

3/ Contract, ch. 1.2(b).

4/ Contract, ch. 2.6. The contract specifies that "for price comparison, the following elements will be taken into consideration: confirmation commission, purchase commissions, financial costs, interests, transportation insurance premiums, transportation expenses, market information from commercial sources, published market reports, authorized rates, producers and/or sellers price lists, commercial practices and policies, similar supplier's invoices and contracts, price lists of other producers or sellers." Contract at ch. 2.8.

5/ Contract, ch. 3:14.

6/ Contract, ch. 5:2.

7/ Contract, ch. 5:3, and amendment to contract published in the Official Gazette, No. 138, Mar. 6, 1985.

8/ Contract, ch. 2.11(a)-(f).

program, SGS saved $20 million of foreign exchange for Ecuador. 1/ ***. 2/ ***. 3/

As a partial response to recent complaints by U.S. exporters regarding PSI, the Government of Ecuador has considered modifying the SGS contract to replace the blanket inspection requirement to a sampling of export shipments to Ecuador. As of June 1987, however, a decision on whether or not to modify the contract had not been made.

U.S. Department of Commerce data

The total number of shipments to Ecuador in 1986 was 26,235. (The size of shipments and size distribution of shipments during 1986 to Ecuador are presented in table 3-12.) Seventy-three percent of shipments ranged from

Table 3-12.--Percent of total number of shipments to Ecuador by ranges of values in 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $2,000	18.2
$2,001 to $3,000	11.9
$3,001 to $4,000	8.1
$4,001 to $5,000	6.3
$5,001 to $10,000	18.0
$10,001 to $25,000	19.7
$25,001 to $50,000	9.2
$50,001 to $100,000	5.0
More than $100,000	3.6

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general License.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

1/ ***.
2/ ***.
3/ ***.

$1,001 to $10,000. Over 91 percent of all shipments were $50,000 or less. Fourteen percent of the total value of all shipments (14.2 percent of the total number) were made to related parties.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Ecuador of the sampled respondents amounted to $107.2 million, or 18.3 percent of the total value of all U.S. exports to Ecuador in 1986. Seventy-six percent of the value of reported shipments to Ecuador in 1986, valued at $81 million, were inspected. The total number of shipments reported was 8,391, of which 6,351 were estimated inspected. 1/

Lost revenues.--Exporters reported that in 0.9 percent of their inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $1.9 million, and, after the price change, amounted to $1.4 million, resulting in a loss of revenue of $0.5 million, or 26 percent of the total value of the affected shipments.

Costs of preshipment inspections.--Exporters reported that delays occurred in 54.6 percent of the number of shipments to Ecuador which were inspected in 1986 (see table 3-13). The total value of such shipments amounted to $53.7 million. The average length of delay was 28 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.51 percent of the value of delayed shipments, or $80 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $64 per affected shipment. Charges for demurrage occurred in 0.4 percent of inspected shipments, and cost the exporters an average of $422 per affected shipment. Other charges occurred in 6.9 percent of inspected shipments, and cost the exporters $167 per affected shipment. Charges for letter of credit discrepancies occurred for 0.7 percent of inspected shipments to Ecuador and cost an average of $66 per affected shipment .

Total average cost per inspected shipment to Ecuador is $470.27 Total costs of inspection represents 3.7 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Ecuador, inspection costs represent 2.8 percent.

1/ The figure for shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

Table 3-13.--Estimated average cost per inspected shipment to Ecuador

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	54.6	79.00	43.13
Courier fees and telephone calls	19.8	64.44	12.76
Charges for letter of credit discrepancies	0.7	65.56	0.43
Demurrage charges	0.4	422.33	1.80
Other	6.9	166.50	11.48
Total average costs:			
Per shipment inspected	-	-	470.27
As a percent of weighted average value of inspected shipments 2/	-	-	3.7

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Ecuador is $12.880.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Equatorial Guinea

Trade with the world

Equatorial Guinea's total trade turnover in 1985 amounted to $50.9 million. With exports totaling $27.3 million and imports at $23.6 million, Equatorial Guinea experienced a 1985 trade surplus of $3.7 million. In 1984, Equatorial Guinea's total external debt amounted to $116 million.

Trade with the United States

From 1985 to 1986, the value of total U.S. exports to Equatorial Guinea decreased from $211,000 to $35,000 (table 3-14). There were only two categories of exports from the United States to this country in 1986: machinery and transportation equipment, valued at $31,000, and special classifications exports, valued at $4,000. There were no U.S. exports of animal and vegetable products in 1986, in contrast to 154,000 dollars' worth of these products in 1985.

Table 3-14.--Value of total U.S. exports to Equatorial Guinea, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	154	0
2..........	Wood and paper: printed products...........	0	0
3..........	Textile fibers and textile products........	0	0
4..........	Chemicals and related products.............	0	0
5..........	Nonmetallic minerals and products..........	0	0
6, pts. 1-3	Metals and metal products..................	0	0
6, pts. 4-6	Machinery and transportation..............	17	31
7..........	Miscellaneous and nonenumerated products...	0	0
8..........	Special classifications division-other.....	41	4
	Total.................................	211	35

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

Foreign exchange is bought and sold in Equatorial Guinea without taxes or subsidies. Transactions with France and countries linked to the French Treasury through an operations account may be freely made. 1/ Transactions with any other country are considered a foreign transaction. The Directorate General of Exchange Control in the Ministry of Finance administers foreign-exchange control for Equatorial Guinea, whereas import transactions in excess

1/ The countries are Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, the Comoros, the Congo, the Ivory Coast, Gabon, Mali, Niger, Senegal, and Togo.

of CFAF50,000 (about $155 at 1986 exchange rates) must be made through an authorized bank. 1/ All commercial imports require an import license. Imports must be made within 3 months from the date of opening of letters of credit.

Preshipment inspection program

Equatorial Guinea's PSI program has been in effect since October 1982. The Bank of Equatorial Guinea, the Central Bank, signed the inspection contract with SGS. The Central Bank is also the agency responsible for processing applications for imports, which are a part of the inspection program. The program subjects all imports valued over $2,500, with certain exceptions, to inspections for quality, quantity, and price. The stated purpose of the program is to "benefit importers while at the same time providing foreign exchange savings for the country." A CRF by SGS, although not necessary for clearing customs in Equatorial Guinea, is required for release of payment for imports.

Exemptions.--The following goods are exempted from the program: gold; precious stones; works of art; explosives and pyrotechnic materials; munitions; weapons and instruments of war; live animals; fresh, refrigerated, or frozen fish; eggs; fresh, refrigerated, or frozen meats; fresh, refrigerated, or frozen fruits; fresh, refrigerated, or frozen vegetables; scrap iron; personal belongings and household goods, including one used automobile; current periodicals and magazines accepted in Equatorial Guinea; and postal packages. 2/

U.S. Department of Commerce data

The total number of shipments to Equatorial Guinea in 1986 was three. The size of shipments and size distribution of shipments during 1986 to Equatorial Guinea are presented in table 3-15. Sixty-seven percent of shipments ranged from $1,000 to $10,000. All shipments were under $50,000. None of the total value of all shipments were made to related parties.

Problems and costs reported by U.S. exporters

Information on delays, lost revenues, and costs of PSI was not provided in the questionnaire responses.

1/ IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, p. 217.

2/ The above information pertaining to Equatorial Guinea's inspection program is based on a release from the Central Bank reproduced in "EBANO," National, Malabo, Equatorial Guinea, February 18, 1983.

Table 3-15.--Percent of total number of shipments to Equatorial Guinea, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	33.3
$5,001 to $10,000	33.3
$10,001 to $25,000	33.3
$25,001 to $50,000	0.0
$50,001 to $100,000	0.0
More than $100,000	0.0

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Ghana

Trade with the world

In 1985, Ghana's total trade turnover reached $1.3 billion. Although overall trade activity increased, Ghana experienced a 1985 trade deficit of $36 million, reflecting total exports of $632 million and total imports of $669 million. Ghana's foreign-exchange reserves in 1984 totaled $437 million, sufficient to cover 6.4 months of imports.

Trade with the United States

Between 1985 and 1986, the total value of U.S. exports to Ghana increased by 57 percent from $53 million to $84 million (table 3-16). The largest export category in 1986 was machinery and transportation equipment, valued at about $23 million, followed closely by chemicals and related products, valued at $20 million. The value of U.S. exports of animal and vegetable products declined from $22 million in 1985 to $13 million in 1986.

Table 3-16.--Value of total U.S. exports to Ghana, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products..............	21,741	12,541
2..........	Wood and paper: printed products...........	606	954
3..........	Textile fibers and textile products........	7,212	6,103
4..........	Chemicals and related products.............	4,601	20,358
5..........	Nonmetallic minerals and products..........	2,723	5,483
6, pts. 1-3	Metals and metal products..................	2,235	6,014
6, pts. 4-6	Machinery and transportation...............	7,098	22,902
7..........	Miscellaneous and nonenumerated products...	1,190	2,471
8..........	Special classifications division--other....	5,964	6,877
	Total................................	53,369	83,703

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The Controller of Imports and Exports at the Ministry of Trade regulates foreign trade. Approved foreign-exchange transactions may be conducted through authorized banks. Banks are not allowed to release foreign exchange in payment for imports valued over $2,000 f.o.b. without a CRF by SGS. 1/

Preshipment inspection program

The PSI program of Ghana for verifying quantity, quality, and price, dates from July 1971. Ghanaian letters of credit contain a clause mandating

1/ International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, p. 245.

PSI before payment can commence. A CRF apparently expedites customs clearance, but is not mandatory for customs, and is only one of several documents required to import. 1/ Ghanaian customs officers, however, use the CRF, not invoices, for determining the value of goods for duty purposes. Some importers have insisted that their goods be subject to PSI in order to cut delays clearing customs once the goods arrive in Ghana. 2/

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***. 3/ ***. 4/

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Until recently, imports financed with the importer's own foreign exchange were not inspected. Appeal of an SGS finding can be made in writing to the Bank of Ghana, which will ask SGS to review the case.

Exemptions.--The PSI contract between SGS and the Bank of Ghana exempts all import shipments valued at less than $2,000 from inspection by SGS. 5/ ***, 6/ ***.

1/ Also required are invoices, bills of lading, and an import license.
2/ ***.
3/ ***.
4/ ***.
5/ IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, p. 245.
6/ ***.

*   *   *   *   *

Performance of the program.--A Bank of Ghana official who testified before the Commission's hearing outlined several reasons for Ghana's inspection program, namely (1) import quality control, (2) preservation of foreign exchange from fraud, and (3) valuation services. 1/

The Bank of Ghana representative testified that savings yielded through PSI since its inception in 1972 are between $7 million and $10 million annually, depending on the volume of imports each year, and $300 million to $450 million since the inception of the program. Further, the Bank of Ghana estimates that the deterrent effect of PSI amounted to three times the "visible" savings. 2/ The Bank of Ghana did not provide the Commission with documentation to support these savings. Regarding the ability of SGS to meet Ghana's goals, the Embassy quoted an official from the Bank of Ghana who claimed that each year, "the money saved though price reductions and control of quality and quantity discrepancies is worth up to five times the contract fee." The Bank of Ghana estimates that prior to PSI, overinvoicing ranged from 20 to 50 percent per shipment on 90 percent of the shipments. At present, the estimates of overinvoicing is 10 to 20 percent on 30 to 40 Percent of imports. 3/

The Embassy report mentioned above also noted problems of the inspection program encountered by Ghana. The Bank of Ghana official identified the unwillingness of some sellers to cooperate with SGS as the main problem in the process. The problems reportedly center around refusal of exporters to provide the requisite details for the inspection. However, he noted that, in his view, several British and American firms have come to accept the process because inspected goods apparently receive faster payment than uninspected goods. 4/

In the Embassy report, an SGS representative in Ghana was reported to describe recent SGS problems in the United States as a "temporary" condition. The problems were caused, he asserted, when the company jumped from an average of 500 to 800 U.S. inspections per month to over 10,000 per month after SGS signed several new contracts with Latin American countries. Asked to name the most common problem cited for failing to clear a shipment, an SGS Ghana representative cited price (overinvoicing); a Bank of Ghana representative

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1/ Written testimony of Mr. Peter Samlafo, manager, Bank of Ghana, prepared for the U.S. International Trade Commission hearing in Miami on Mar. 2, 1987

2/ Ibid.

3/ ***.

4/ ***.

cited price followed by quantity; and a customs official cited price, quality, and quantity considerations equally. 1/

The Embassy report states that the Government of Ghana is apparently satisfied with SGS's operation of the PSI programs, and has no plans to discontinue the contract. According to a Bank of Ghana official, "The government has not considered scrapping" the scheme, particularly since Ghana maintains foreign-exchange restrictions, which make overinvoicing a temptation. In addition, the decision to subject imports financed with an importer's own foreign-exchange resources to the inspection program was designed as another means to counteract underinvoicing and evasion of restrictions on foreign-exchange remittances.

In a recent letter to a member of Congress, 2/ the Bank of Ghana outlined what it perceived as the benefits of PSI during its 15- year experience with the program. The benefits cited were (1) foreign-exchange conservation through "eliminating illegal transfers and capital flight through over-invoicing," (2) ensuring delivery of high quality and properly specified products, (3) "identifying repatriable foreign exchange due to parties resident in Ghana," (4) "controlling" the cost of imports and ensuring economic growth, (5) efficient management of foreign-exchange resources, and (6) "ensuring that Ghana gets value for money." The letter stated that the program does not discriminate against the United States singly, but treats all export sources the same.

U.S. Department of Commerce data

The total number of shipments to Ghana in 1986 was 3,516. (The size of shipments and size distribution of shipments during 1986 to Ghana are presented in table 3-17.) More than 77 percent of shipments ranged from $1,001 to $10,000. Over 93 percent of all shipments were $50,000 or less. About 13 percent of the total value of all shipments (more than 7 percent of the total number) were made to related parties.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Ghana of the sampled respondents amounted to $20.2 million, or more than 24 percent of the total value of all U.S. exports to Ghana in 1986. About 5 percent of the value of reported shipments to Ghana, valued at $1 million, in 1986 were inspected. The total number of shipments reported was 4,433, of which 98 were estimated inspected. 3/

Lost revenues.--This information was not provided in the questionnaire responses.

1/ ***.
2/ Letter from K. Ossei-Kumah, Deputy Governor, Bank of Ghana, to Rep. Howard Wolpe, submitted to the Commission by SGS, Apr. 6, 1987.
3/ The figure for shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

Table 3-17.--Percent of total number of shipments to Ghana, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
(Dollars)	
$1,001 to $5,000	60.9
$5,001 to $10,000	16.4
$10,001 to $25,000	11.3
$25,001 to $50,000	4.6
$50,001 to $100,000	3.3
More than $100,000	3.5

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Costs of preshipment inspections.--Exporters reported that delays occurred in 10.2 percent of their shipments to Ghana that were inspected in 1986. The total value of such shipments amounted to $53,000. The average length of delay was 20 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.35 percent, of the value of delayed shipments, or less than $20 per shipment delayed.

The only other costs reported to be incurred by the exporters for PSI of exports to Ghana were in the category "other charges." The average cost incurred by the exporters for other charges was estimated to be $150 per shipment affected (see table 3-18).

Total average cost per inspected shipment to Ghana is $408.73. Total costs of inspection represents 3.7 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Ghana, inspection costs represent 0.2 percent.

Table 3-18.--Estimated average cost per inspected shipment to Ghana

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	10.2	19.00	1.94
Courier fees and telephone calls	2/	2/	2/
Charges for letter of credit discrepancies	2/	2/	2/
Demurrage charges	2/	2/	2/
Other	4.1	150.00	6.12
Total average costs:			
Per shipment inspected	-	-	408.73
As a percent of weighted average value of inspected shipments 3/	-	-	3.7

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Information not reported on questionnaire responses.
3/ Estimated average value of inspected shipments to Ghana is $10,680.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Guatemala

Trade with the world

Guatemala's total trade activity in 1985 reached $2.1 billion. With imports of $1.08 billion and exports of $1.06 billion, Guatemala recorded a 1985 trade deficit of $17 million.

During 1984, Guatemala held gross international reserves of $435 million, enough to cover 3.1 months of imports. Total external debt reached $2 billion, representing 155.5 percent of the value of exports of goods and services for 1984.

Trade with the United States

Total U.S. exports to Guatemala amounted to $398 million in 1985 and $392 million in 1986 (table 3-19). The largest export category in 1986 was chemicals and related products, valued at $140 million, followed by machinery and transportation equipment, valued at $81 million, and animal and vegetable products, valued at nearly $70 million.

Table 3-19.--Value of total U.S. exports to Guatemala, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	78,499	69,321
2..........	Wood and paper: printed products...........	24,202	21,524
3..........	Textile fibers and textile products........	20,427	19,426
4..........	Chemicals and related products.............	142,985	139,550
5..........	Nonmetallic minerals and products..........	3,015	2,454
6, pts. 1-3	Metals and metal products..................	11,027	11,268
6, pts. 4-6	Machinery and transportation...............	75,239	80,675
7..........	Miscellaneous and nonenumerated products...	20,140	27,322
8..........	Special classifications division--other....	22,944	20,770
	Total...............................	398,479	392,311

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

Guatemala employs a three-tiered exchange-rate system, which consists of an official rate (pegged equal to the U.S. dollar), a free-market rate, and an auction rate (affected by market forces, but subject to change by the Central Bank). Transactions at the official rate include foreign exchange earnings from official borrowings and from exports of important primary products, 1/

1/ The products include sugar under quotas, bananas, petroleum, 90 percent of earnings from cardamom, 75 percent of earnings from coffee export sales, and 50 percent of sales from cotton, meat, and other exports outside the Central American Common Market.

import payments deemed essential by the Government, 1/ debt repayment, and other official transactions. All other foreign-exchange transactions use the free market. The Bank of Guatemala, or approved private banks, release foreign exchange for international transactions in Guatemala. 2/

Preshipment inspection program

The Government of Guatemala initiated its contract with SGS in September 1986 to combat perceived problems of capital flight and false invoicing of imports and exports, tax evasion, and to assist in identifying repatriable commissions. 3/ Guatemalan officials estimated that over the past 7 years as much as $2 billion of revenue has either left the country through overinvoicing of imports, or not entered because of underinvoicing of exports. 4/ ***. 5/ The contract between SGS and the Ministry of Finance and the Bank of Guatemala (the Central Bank) stipulates that SGS is to provide inspection services for the imports and exports of both the public and private sector (with certain exceptions) for a period of 1 year, with the Government of Guatemala having the option to renew or cancel. SGS inspects to determine if the price, quantity, and quality match the contractual documents submitted for exchange, customs, and tax purposes.

Price inspections are to be made on shipments valued above $5,000 f.o.b. on the basis of "comparison of the prices declared in each foreign trade transaction with those prevailing in the market of the buying or selling country or in the international market." 6/ The SGS-Guatemala contract includes numerous price factors which, among other factors, "shall be taken into account" in the inspection process. These factors are as follows: confirmation commissions, purchase commissions, finance charges, interest, insurance premiums, transportation expenses, market information from commercial sources, public market reports, official quotations, pricelists of manufacturers and vendors, commercial practices and customs, similar invoices

1/ Imports deemed essential may include basic foodstuffs, medicines, pharmaceutical products, basic agricultural inputs, and most fuels and lubricants. All other import transactions take place in the free market or auction market.

2/ International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, pp. 255-56.

3/ Hearing Mar. 2, 1987, at pp. 172-75. In a release issued by the Embassy of Guatemala in Washington, DC, at the initiation of the PSI program, the plan was described as intending "to attack corruption," specifically "SGS will control product invoicing abroad precisely to prevent tax evasions and so that the state can receive the proper taxes to be used for the good of the people." Embassy of Guatemala, Washington, DC, Sept. 15, 1986.

4/ Hearing, Mar. 2, 1987, at pp. 174-79. Guatemalan officials were not able to break out the shares of exports and imports in this figure.

5/ ***.

6/ Contract, ch. 1, clause 2D.

or contracts of the vendor. and pricelists of other manufacturers or vendors. 1/

Concerning Guatemala's customs procedures, a CRF is required for customs clearance. Customs clearance can be effected, and letters of credit released upon a positive conclusion of the SGS inspection process. In the event of an NNRF, the importer or exporter affected can appeal to the SGS or the Central Bank, which can take months to resolve the issue. 2/

SGS is forbidden to provide confidential information obtained during the course of inspections to third parties "concerning matters of which it has knowledge as a result of the services it provides" the Guatemalan Government. The Government is also bound to take "adequate precautions" regarding confidential information obtained through inspections. 3/

SGS CRF's certify that foreign-exchange amounts in the import license are correct or acceptable. SGS is to provide the Government of Guatemala with quarterly reports detailing the results of inspections. 4/ ***. 5/

SGS's inspection fees are 1.299 percent of the value inspected for imports, and 1.038 percent of the value of exports inspected, with a minimum fee of $130 per inspection for imports and $39 per inspection for exports. 6/ ***. 7/

Exemptions

No inspections are required on shipments of less than $5,000. Moreover, no inspections are to be made for gold, precious stones, art objects, military

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1/ Contract, ch. 2, clause 8.
2/ ***.
3/ Contract, ch. 6, clause 27.
4/ Contract, ch. 1, clause 2J.
5/ Contract, ch. 2, clause 13.
6/ Contract, ch. 5, clauses 20 and 22. The Government of Guatemala appropriated $300,000 for the initial period of the operation. Ministry of Public Finances, Governmental Resolution No. 354-86, June 18, 1986.
7/ ***.

equipment and supplies, periodicals and magazines, or personal belongings or household goods. In the case of live animals, only the number is to be verified. In the case of chemical products with patented formulas, only the quantity, expiration date, and price comparison shall be made. SGS may accept or decline to inspect used goods at its discretion, and, if inspections are made, price, quality, and condition shall only be approximated. In the case of centralized economies, SGS also reserves the right to limit itself, if necessary, "to making the price comparison on an international basis." SGS will advise the Government of Guatemala when the company deems price comparisons to "have no real significance, or when local conditions do not permit" inspections.

Performance of the program

The U.S. Embassy in Guatemala noted that SGS's performance is measured by the level of success achieved in detecting overinvoicing and underinvoicing. In the Embassy report, the following reference was made to SGS's performance: "due to an apparent lack of success by SGS in generating significant new revenues for the Government of Guatemala through identification of under- and overinvoicing, it appears to us that host government officials currently hold little enthusiasm for renewing the SGS contract." 1/ After the first quarter of operation, SGS reported "savings" of less than 10 percent of the target amount. In their marketing effort to the Government of Guatemala, SGS had promised to detect overinvoicing and underinvoicing of $30 million in the first quarter of the program's operation. 2/ An official decision on renewal of the contract by the Government is expected in 1987. ***.

The private sector, export promotion groups, and local importers in Guatemala have voiced complaints to the highest levels of the Government of Guatemala regarding the inspection program. 3/ In a submission to the Commission, the Chamber of Commerce of Guatemala criticized the "operation of SGS in Guatemala" as illegal, causing an obstacle to trade for Guatemalan exporters and importers. In addition, the Chamber claimed that the request for confidential information "has resulted, in many cases, in the loss of suppliers" of exports to Guatemala, who would rather lose the relatively small Guatemalan export market than open their records to SGS. 4/

1/ ***.
2/ ***.
3/ ***.
4/ Submission to the USITC by Ing. Alvaro Castillo Monge, President, Camara de Industria de Guatemala, Mar. 18, 1987. A letter by the Camara de Representantes de Casas Extranjeras in Costa Rica also complained about the effect of the Guatemalan inspection program on bilateral trade. A letter from KEM CENTROAMERICANA S.A. in Costa Rica submitted to the Commission indicates that exports from Costa Rica to Guatemala are subject to delays, and the shippers may not be notified of the inspection requirement until after shipment.

U.S. Department of Commerce data

The total number of shipments to Guatemala in 1986 was 21,066. (The size of shipments and size distribution of shipments during 1986 to Guatemala are presented in table 3-20.) Approximately 73 percent of the shipments ranged from $1,001 to $10,000. Over 94 percent of all shipments were $50,000 or less. Only 17 percent of the total value of shipments (12 percent of the total number) were made to related parties.

Table 3-20.--Percent of total number of shipments to Guatemala, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
(Dollars)	
$1,001 to 5,000	55.8
$5,001 to $10,000	17.3
$10,001 to $25,000	15.6
$25,001 to $50,000	5.8
$50,001 to $100,000	2.6
More than $100,000	2.9

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Guatemala of the sampled respondents amounted to $31.5 million, or approximately 8 percent of the total value of all U.S. exports to Guatemala in 1986. Approximately 76 percent of the value of reported shipments to Guatemala, valued at $23.9 million, were inspected in 1986. The total number of reported shipments was 1,596, of which 884 were estimated inspected. 1/

Lost revenues.--Exporters reported that in 0.9 percent of the number of inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $293,000 and after the price change amounted to $274,000, resulting in a loss of revenue of $19,000, or 6.5 percent of the total value of the affected shipments to Guatemala.

Costs of preshipment inspections.--Exporters reported that delays occurred in 63.9 percent of the number of shipments to Guatemala which were inspected in 1986. The total value of such shipments amounted to $22 million. The average length of delay was 18 calendar days.

1/ The figure for inspected shipments is estimated from data supplied by exporters in response to the Commission Questionnaire.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.33 percent of the value of delayed shipments, or approximately $128 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $81 per affected shipment. Charges for letter of credit discrepancies occurred in only 0.7 percent of inspected shipments and cost the exporters an average of $54 per affected shipment. Demurrage charges and other occurrences associated with PSI were reported for 3.5 and 22.9 percent, respectively, of inspected shipments to Guatemala and cost an average of $42 and $288, respectively, per shipment affected (see table 3-21).

Table 3-21.--Estimated average cost per inspected shipment to Guatemala

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	63.9	128.00	81.79
Courier fees and telephone calls	37.7	81.07	30.55
Charges for letter of credit discrepancies	0.7	54.17	0.37
Demurrage charges	3.5	41.67	1.46
Other	22.9	287.60	65.74
Total average costs:			
Per shipment inspected	-	-	580.58
As a percent of weighted average value of inspected shipments 2/	-	-	2.1

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Guatemala is $27,120.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Guatemala is $580.58. Total costs of inspection represents 2.1 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Guatemala, inspection costs represent 1.6 percent.

Guinea

Trade with the world

Guinea's total trade turnover in 1985 amounted to $834 million. A surplus of $94 million in the trade account reflected exports of $464 million and imports of $370 million.

Trade with the United States

During 1985-86, the value of U.S. exports to Guinea declined by 51 percent from $49.2 million to $24.0 million (table 3-22). The decrease in total exports can be attributed largely to reduced exports of chemical and related products that fell from $21.2 million in 1985 to $647,000 in 1986, or by 97 percent. The largest category of exports in 1986 was animal and vegetable products, valued at $14.6 million, followed by machinery and transportation equipment, valued at $4.8 million, and special classifications exports, valued at $1.6 million.

Table 3-22.--Value of total U.S. exports to Guinea, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1	Animal and vegetable products	11,556	14,611
2	Wood and paper: printed products	816	437
3	Textile fibers and textile products	363	253
4	Chemicals and related products	21,155	647
5	Nonmetallic minerals and products	219	119
6, pts. 1-3	Metals and metal products	731	853
6, pts. 4-6	Machinery and transportation	11,590	4,830
7	Miscellaneous and nonenumerated products	1,409	715
8	Special classifications division--other	1,349	1,554
	Total	49,188	24,018

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

Guinea maintains a dual-exchange system. 1/ The official rate is pegged to the SDR, and applies only to foreign-exchange transactions of the public sector and to mining companies. In the second exchange rate market, individuals and nonbank institutions can buy but not sell foreign exchange. The second market is where foreign-exchange transactions for investment

1/ Under a dual-exchange-rate system, the "official rate" (the most favorable rate of exchange) usually applies to government importers or importers of goods deemed essential by the governmental authorities, and to exporters. The other rate, faced by importers of goods deemed less essential, may cost buyers of foreign exchange 2 or 3 times more than the official rate, with the difference going to the Central Bank.

capital inflows, nonmining export receipts, grants, business and tourist expenditures, and transactions denominated in foreign exchange take place. The Central Bank administers exchange control. The Ministry of Foreign Trade issues export and import licenses. 1/

Preshipment inspection program

The PSI program of Guinea was contracted with Bureau Veritas, in January 1986. Bureau Veritas inspects for quantity, quality, and price of imports. The fee charged by Bureau Veritas is 0.9 percent of the f.o.b. value of the goods inspected. Importers may not obtain release of imports at the Port of Conakry and the Central Bank may not release foreign-currency transfers until Bureau Veritas issues a CRF. Bureau Veritas is allowed a 14-day period in which to undertake inspections. Importers seeking to import merchandise that has failed to receive a CRF from Bureau Veritas's inspection are allowed to seek a waiver of the inspection requirement from the Secretary of State for Commerce. As with many SGS PSI contracts, the Bureau Veritas inspection program obligates the company to comply with national restrictions of the exporting countries when price comparisons are regulated.

Exemptions.--* * * * *

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1/ International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, p. 258.

Performance of the program.--Importers in Guinea maintain that Bureau Veritas favors certain exporting countries, such as France, causing unnecessary delays in trade and helping influence the choice of products exported. Such allegations are denied by the Guinea representative of Bureau Veritas. The company maintains that between February and September 1986, Bureau Veritas' inspections saved Guinea 660 million Guinean Syli (GS) ($1.6 million) on total imports worth GS18 billion ($43.9 million). 1/ According to a recent U.S. Embassy report from Guinea, the Secretary of State for Commerce in Guinea is "continuing to re-examine" the inspection and licensing programs, which have undergone significant liberalization since an economic reform program was instituted in December 1985. 2/

U.S. Department of Commerce data

The total number of shipments to Guinea in 1986 was 1,494. (The size of shipments and size distribution of shipments during 1986 to Guinea are presented in table 3-23.) About 63 percent of shipments were valued at $5,000 or less. Over 97 percent of all shipments were $50,000 or less. Nearly 27 percent of the total value of all shipments (about 85 percent of the total number) were made to related parties.

Table 3-23.--Percent of total number of shipments to Guinea, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	62.8
$5,001 to $10,000	24.0
$10,001 to $25,000	8.2
$25,001 to $50,000	2.3
$50,001 to $100,000	0.9
More than $100,000	1.8

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

The total value of U.S. exports to Guinea of the sampled respondents amounted to $1.8 million, or about 8 percent of the total value of all U.S. exports to Guinea in 1986. More than 95 percent of the value of reported

1/ Dollar values calculated using the official rate of GS410 to $1.00.
2/ ***.

shipments to Guinea in 1986, valued at $1.7 million, were inspected. The total number of shipments reported was 38, of which 27 were estimated inspected. 1/

Problems and costs reported by U.S. exporters

Information on lost revenues, delays, and other costs of PSI was not provided in the questionnaire responses.

1/ The figure for shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

Haiti

Trade with the world

In 1985, Haiti's total trade turnover reached close to $1.1 billion. With imports valued at $567 million and exports at $485 million, Haiti experienced a trade deficit of $81 million in 1985.

Haiti held foreign-exchange reserves in 1984 of $18 million, sufficient to cover 0.4 months of imports. Haiti's gross external liabilities in 1984 were $658 million.

Trade with the United States

Total U.S. exports to Haiti amounted to $387 million in 1985 and $379 million in 1986 (table 3-24). The largest export category in 1986 was machinery and transportation equipment, valued at $80 million, followed closely by textile fibers and textile products, valued at $78 million, miscellaneous products, valued at $77 million, and animal and vegetable products, valued at $75 million.

Table 3-24.--Value of total U.S. exports to Haiti, 1985 and 1986

(F.a.s. value, in thousands of dollars

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products..............	73,900	74,936
2..........	Wood and paper: printed products...........	11,348	11,084
3..........	Textile fibers and textile products........	68,389	78,349
4..........	Chemicals and related products.............	16,690	15,691
5..........	Nonmetallic minerals and products..........	16,636	10,854
6, pts. 1-3	Metals and metal products..................	9,126	8,006
6, pts. 4-6	Machinery and transportation...............	94,694	79,578
7..........	Miscellaneous and nonenumerated products...	78,692	76,527
8..........	Special classifications division--other....	17,552	24,420
	Total................................	387,026	379,444

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

Control of foreign exchange in Haiti is administered by the Bank of the Republic of Haiti, the Central Bank. The Central Bank and certain commercial banks are the only agents authorized to undertake exchange transactions. The requirement to use these agents constitutes the only obligations for currency payments to and from nonresidents in Haiti. 1/

1/ International Monetary Fund, Exchange Agreements and Exchange Restrictions, Annual Report, 1986, p. 266.

Preshipment inspection program

SGS's first contract with Haiti extended from January 1, 1984 to December 12, 1985, and was then renewed for a period of 2 years. 1/ The contract was implemented in order to fulfill several governmental goals: promote national industry; protect the national economy; and safeguard the interests of importers, producers, and consumers through inspecting goods for quantity, quality, and price. 2/ 3/

* * * * *.

Although a witness at the Miami hearing testified that Haiti no longer requires PSI, 4/ the U.S. Embassy in Port au Prince reports that the program is still in operation. 5/ The Embassy relayed speculations by some Haitian officials that the reduction in the list of imports subject to inspection may be a first step in an eventual decision to let the contract expire without renewal. 6/ *** 7/ ***.

A "Certificate of Inspection" from SGS must accompany the other documents necessary for negotiation of letters of credit and other bank payment arrangements. Also, importers are required to present a CRF to Haitian customs for the goods in question to be cleared. An NNRF bars the goods in

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1/ ***.
2/ Le Moniteur, Official Gazette of the Republic of Haiti, 139th year, No. 8, Jan. 30, 1984.
3/ ***.
4/ Testimony of Mr. Travis, Miami hearing, Mar. 2, 1987, p. 79.
5/ ***.
6/ ***.
7/ ***.

question from clearing Haitian customs. "Unrealistic pricing" is the most common reason cited by SGS-Haiti for failing to issue a CRF on goods bound for Haiti. 1/

The SGS contract with Haiti and implementing decrees do not provide for a formal appeals process. Appeals are made directly to the Ministry of Economy and Finance, which may decide to authorize the release of shipments through customs without a CRF.

*   *   *   *   *

***. 2/

In a decree amending the implemention of the inspection program, failure to obtain SGS inspection will result in a penalty equal to a "100 percent adjustment of the declared CIF value." Also, provision is made for increasing the price by 100 percent for multiple shipments to a single importer simultaneously, or within a short time period with a value of less than $3,000. Such imports are presumed by the Haitian Government to be a large order split into smaller shipments to avoid the necessity of inspections. 3/

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***. 4/

Exemptions.--*   *   *   *

Countries in which SGS has agreed to undertake PSI for exports to Haiti are listed in the appendix K.

1/ ***.
2/ ***.
3/ Le Moniteur, Official Gazette of the Republic of Haiti, 140th year, No. 38, June 3, 1985.
4/ ***.

Performance of the program.--On September 30, 1985, a Government communique limited SGS PSI to three categories of imports. Prior to this limitation, regular complaints by importers in Haiti maintained that SGS inspection procedures were arbitrary and sometimes slow. Complaints have virtually subsided since the September 30, 1985, communique, according to the Ministry of Commerce and Industry sources. 1/ Neither the Ministry of Commerce and Industry nor the Ministry of Finance provided data that could indicate that SGS has met the goals in the contract, however, the ministries stated informally that SGS has met the goals of the contract. 2/

U.S. Department of Commerce data

Data concerning U.S. exports to Haiti in 1986 compiled by related and unrelated parties and by ranges of value were not available.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Haiti of the sampled respondents amounted to almost $19 million, or 5 percent of the total value of all U.S. exports to Haiti in 1986. Seventeen percent of the value of reported shipments to Haiti in 1986, valued at $3.2 million, were inspected. The total number of shipments reported was 900, of which 359 were estimated inspected. 3/

Lost revenues.--Exporters reported that in 5 percent of their inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $149,000 and after the price change amounted to $64,000, resulting in a loss of revenue of $85,000, or 57 percent of the total value of all affected shipments to Haiti.

Costs of preshipment inspections.--Exporters reported that delays occurred in 25.1 percent of their shipments to Haiti which were inspected in 1986. The total value of such shipments amounted to $799,000. The average length of delay was 36 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.64 percent of the value of delayed shipments, or less than $56 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $47 per affected shipment. Charges for letter of credit discrepancies occurred in 0.6 percent of inspected shipments

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1/ ***.
2/ ***. ***.
3/ The figure for shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

and cost the exporters an average of $13 per shipment affected. Demurrage charges occurred for 0.3 percent of inspected shipments to Haiti and cost an average of $500 per affected shipment (see table 3-25).

Table 3-25.--Estimated average cost per inspected shipment to Haiti

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	25.1	56.00	14.06
Courier fees and telephone calls	28.7	46.88	13.45
Charges for letter of credit discrepancies	0.6	12.50	0.07
Demurrage charges	0.3	500.00	1.39
Other	18.7	72.00	13.44
Total average costs:			
Per shipment inspected	-	-	443.08
As a percent of weighted average value of inspected shipments 2/	-	-	4.8

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Haiti is $9,220.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Haiti is $443.08. Total costs of inspection represents 4.8 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Haiti, inspection costs represent .8 percent.

Indonesia

Trade with the world

Indonesia's trade turnover in 1985 amounted to $31.2 billion. Indonesia ran an overall trade surplus of $5.8 billion, reflecting total 1985 imports worth $12.7 billion and exports worth $18.5 billion.

During 1984, Indonesia held foreign-exchange reserves of $5.7 billion, representing 2.8 months of import coverage. Total external debt totaled $32.5 billion in 1984. Relative to exports of goods and services, Indonesia's international debt amounted to $146.5 for every $100 in export earnings.

Trade with the United States

Total U.S. exports to Indonesia amounted to $910.6 million in 1986 (table 3-26), or about 0.4 percent of total U.S. exports. However, in 1985, U.S. exports of $774.2 million accounted for 6.1 percent of Indonesia's imports. In 1986, the United States experienced a bilateral-trade deficit of $2.4 billion with Indonesia, a small reduction from U.S. trade deficits with Indonesia of about $4.2 billion and $3.8 billion recorded in 1984 and 1985, respectively.

The largest U.S. export category to Indonesia in 1986 was machinery and transportation equipment, valued at $337.8 million, followed by chemicals and related products, valued at $220.7 million, and animal and vegetable products, valued at $147.5 million.

Table 3-26.--Value of total U.S. exports to Indonesia, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products..............	102,785	147,507
2..........	Wood and paper: printed products...........	38,130	46,031
3..........	Textile fibers and textile products........	91,098	64,083
4..........	Chemicals and related products.............	173,791	220,707
5..........	Nonmetallic minerals and products..........	15,180	18,792
6, pts. 1-3	Metals and metal products..................	13,258	16,297
6, pts. 4-6	Machinery and transportation...............	300,325	337,820
7..........	Miscellaneous and nonenumerated products...	32,205	51,052
8..........	Special classifications division--other....	7,417	8,329
	Total............................	774,189	910,619

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

Indonesia's exchange and trade system is administered by the Bank of Indonesia, the Ministries of Trade and Finance, foreign-exchange banks, and customs authorities. The exchange rate of the Indonesian Rupiah is determined by a managed float. Indonesia maintains a registry of authorized importers and exporters approved by the Ministry of Trade. In general, only Indonesian nationals can be authorized to import, but foreign investors are permitted imports necessary to their particular projects. Imports of some products can only be effected by state enterprises. Many other products may be imported only by authorized importers, and some of these require import licenses. Few, if any, products are subject to import quotas, whereas a number of products are subject to export quotas. 1/

The revised Indonesian tariff schedule contains 11 tariff rates ranging from 0 to 60 percent, with the exception of some luxury items that incur higher tariffs or a specific duty. Value-added and other taxes are also applied to imports. Although the Indonesian customs no longer examines goods or collects import duties, customs approval must still be granted before imports can be released from ports. 2/

Preshipment inspection program

Unlike PSI programs implemented by other countries for the purpose of conserving foreign exchange, Indonesia's program has the primary objective of improving the administration of the country's customs operations, particularly the collection of duties. 3/ On April 4, 1985, as part of a major reform of its trade system, the Government of Indonesia introduced a PSI program designed to facilitate the "traffic flow in goods" both imported and exported. 4/ The 1985 regulation made PSI mandatory, introduced other new procedures for customs clearance, and issued regulations to make harbor and mooring procedures more efficient. The trade reform package implemented in April also included introduction of a new tariff schedule with rates ranging from 0 to 60 percent, a reduction from previous rates of 0 to 225 percent. Under the PSI program, PSI and customs valuation of imports is conducted by the Government agent, SGS, in order for imports to enter into Indonesia. Except for specified commodities, exports were also freed from inspection by Indonesian customs, with SGS inspecting exports subject to export certification at the port of destination.

Designed as a measure to promote efficiency in all aspects of customs clearance, Indonesia's PSI program is also aimed at reducing long delays at the port of entry ***. 5/ ***. 6/

1/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 293.
2/ Ibid.
3/ Governmment of Indonesia, Presidential Instruction No. 4, 1985, "Policy on the Flow of Goods to Support Economic Activities," Apr. 4, 1985.
4/ Ibid.
5/ ***.
6/ ***.

PSI activities are overseen by P.T. Superintending Co. of Indonesia (Sucofindo), a corporation that is majority owned by the Government. 1/ SGS acts as an agent for Sucofindo in its inspection funtions. PSI procedures require that importers submit the import documentation and CRF, which includes, among other things, the tariff number and amount of duty and value-added taxes to the foreign exchange bank. The importer then pays the appropriate duties and taxes and takes such documents as the CRF and import duty receipt to the harbor to obtain customs clearance of goods. 2/ Thus, customs duties are collected directly by the foreign-exchange bank, after being assessed by SGS, relegating the local customs service to a role of simply releasing the goods. If payment is to be made by letter of credit, the CRF is sent to the seller to enable him to negotiate payments. If no letter of credit is involved, the CRF is delivered through appropriate channels to the importer's bank. In the event of a disagreement with the customs code classification assigned by SGS, the importer can, however, make administrative appeal to the Directorate General of Customs and Excise. 3/

Exemptions.--* * * *

***. 4/

Performance of the program.* * * *

***. 5/ ***. 6/

1/ ***. "Supplemental Submission- Country Programs," April 30, 1987, p. 20. 2/ Governmment of Indonesia, Presidential Instruction No. 4, 1985, "Policy on the Flow of Goods to Support Economic Activities," Apr. 4, 1985.
3/ Letter to the Chairman from Indonesian Ambassador Soesilo Soedarman, Apr. 21, 1987.
4/ ***.
5/ ***.
6/ ***.

After 1 year of operation of the program, SGS was issuing reports at the rate of 100,000 per year, covering about 95 percent of the value of exports. The Government reported a substantial increase in the collection of duties and related taxes. 1/ ***. 2/

Information submitted to the Commission by private sector representatives and the Embassy of Indonesia claim that PSI has been instrumental in improving operations of customs functions both in terms of time and cost. An executive of Resources Management, Inc., noted that delay in port because of customs clearance has fallen from an average of 40 days prior to PSI to about 3 days, and quoted figures that represented substantial savings in interest and port charges. 3/ AMCHAM Indonesia described the customs clearance process involving SGS as a "vast improvement reducing door to door elapsed time and eliminating inappropriate costs in the process of import clearance." 4/ Indonesia's Ambassador to the United States noted that PSI was one of a number of Government "efficiency measures" designed to speed the flow of imports and exports and has reduced clearance time "from an average of 21-30 days to 2-3 days." 5/

U.S. Department of Commerce data

The total number of shipments to Indonesia in 1986 was 19,131. (The size of shipments and size distribution of shipments during 1986 to Indonesia are presented in table 3-27.) Fifty-nine percent of shipments ranged up to $10,000. Over 84 percent of all shipments were $50,000 or less. Eight percent of the total value of all shipments (19 percent of the total number) were made to related parties.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Indonesia of the sampled respondents amounted to $204.2 million, or 22 percent of the total value of all U.S. exports to Indonesia in 1986. Eighty-six percent of the value of reported shipments to Indonesia in 1986, valued at $175.6 million, were inspected. The

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1/ ***.
2/ ***.
3/ Letter to the Chairman from Harvey Goldstein, Executive Vice President, Resources Management, Inc., Feb. 26, 1987.
4/ Letter to the Secretary from Nick P. Petroff, President, AMCHAM Indonesia, Feb. 23, 1987.
5/ Letter to the Chairman from Indonesian Ambassador Soesilo Soedarman, Apr. 21, 1987.

Table 3-27.--Percent of total number of shipments to Indonesia by ranges of values in 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	45.1
$5,001 to $10,000	14.1
$10,001 to $25,000	16.3
$25,001 to $50,000	9.3
$50,001 to $100,000	6.7
More than $100,000	8.5

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

total number of shipments reported was 3,250, of which 2,503 were estimated inspected. 1/

Lost revenues.--Exporters reported that in 0.2 percent of their inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $215,000 and after the price change amounted to $189,000, resulting in a loss of revenue of $26,000, or 12.1 percent of the total value of all affected shipments to Indonesia.

Costs of preshipment inspections.--Information on delays was not provided in the questionnaire responses. The costs most frequently incurred by the exporters for the PSI process were courier fees and telephone calls. The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $93 per affected shipment. Charges for letter of credit discrepancies occurred in 11.2 percent of inspected shipments and cost the exporters an average of $59 per affected shipment. Other charges occurred for 6.8 percent of inspected shipments to Indonesia and cost an average of $407 per affected shipment (see table 3-28).

Total average cost per inspected shipment to Indonesia is $463.39. Total costs of inspection represents .7 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Indonesia, inspection costs represent 0.6 percent.

1/ The figure for shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

Table 3-28.--Estimated average cost per inspected shipment to Indonesia

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$400.67
Delays	2/	2/	2/
Courier fees and telephone calls	29.4	93.29	27.44
Charges for letter of credit discrepancies	11.2	59.38	6.67
Demurrage charges	1.2	76.00	0.94
Other	6.8	407.35	27.67
Total average costs:			
Per shipment inspected	-	-	463.39
As a percent of weighted average value of inspected shipments 3/	-	-	0.7

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Information not reported on questionnaire responses.
3/ Estimated average value of inspected shipments to Indonesia is $69,940.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Ivory Coast

Trade with the world

The Ivory Coast's total trade turnover in 1985 amounted to $4.3 billion. Ivory Coast ran an overall trade surplus of $1.5 billion, reflecting total 1985 imports worth $1.4 billion and exports worth $2.9 billion.

During 1984, Ivory Coast held foreign-exchange reserves of $19 million, representing 0.1 month of import coverage. Total external debt totaled $7.4 million in 1984. This figure represented almost two and one-half times the value of exports of goods and services for 1984.

Trade with the United States

Total U.S. exports to the Ivory Coast amounted to $59.3 million in 1986 (table 3-29) or about 0.03 percent of total U.S. exports. In 1985, $69.2 million in U.S. exports accounted for about 5 percent of the Ivory Coast's imports. With Ivory Coast exports to the United States worth $425.4 million in 1986, the United States experienced a bilateral-trade deficit of $366.1 million with the Ivory Coast. The largest U.S. export category to the Ivory Coast in 1986 was machinery and transportation equipment, valued at $22.6 million, followed by chemicals and related products, valued at $12.7 million, and wood and paper printed products, valued at $8.3 million.

Table 3-29.--Value of total U.S. exports to Ivory Coast, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1	Animal and vegetable products	9,575	7,084
2	Wood and paper: printed products	6,549	8,346
3	Textile fibers and textile products	2,299	4,761
4	Chemicals and related products	31,926	12,684
5	Nonmetallic minerals and products	286	249
6, pts. 1-3	Metals and metal products	363	404
6, pts 4-6	Machinery and transportation	14,225	22,642
7	Miscellaneous and nonenumerated products	1,654	1,312
8	Special classifications division--other	2,313	1,776
	Total	69,190	59,257

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The Directorate of External Trade of the Ministry of Commerce is responsible for issuing import and export licenses. The Directorate of External Finance and Credit of the Ministry of Economy and Finance administers exchange controls. The currency of the Ivory Coast, the CFA franc, is pegged to the French franc.

Since 1982, all imports have been classified into four categories consisting of prohibited imports, imports for which import licenses are obligatory, 1/ imports requiring a declaration of intent to import, and imports requiring both prior authorization and a declaration of intent to import. 2/ Most exports do not require export licenses but only a declaration. Import licenses or import declarations entitle importers to purchase the necessary foreign exchange. Some imports are subject to annual volume or value quotas. When shipment value exceeds CFAF1.5 million, f.o.b. imports are subject to mandatory PSI by SGS. Tariffs have been raised to "harmonize" local protection and some import quotas have been replaced by temporary surcharges scheduled to decline progressively over 5 years. 3/

An export premium is applied to the amount of domestic value added for locally manufactured products. Export taxes are waived for the products subject to the premium, or those covered by taxation agreements. Foreign exchange earned from export receipts must be surrendered to authorized banks.

Preshipment inspection program

In 1975, the Government of the Ivory Coast, under a contract with SGS instituted a PSI program to combat customs fraud. 4/ According to U.S. Embassy officials, the scope of the program has expanded recently to ensure that importers do not overpay for the goods they contract to buy. 5/ The Ministry of Trade is responsible for overseeing implementation of the program.

Importers initiate the PSI process by filing a declaration of intention to import with the Ministry of Trade, by applying for an import license, or by fulfilling any other prior authorization requirement. 6/ ***

1/ For each transaction exceeding CFAF25,000 f.o.b., e.g., paints, matches, detergents, manmade fabrics, leather articles, footwear, and carpets.
2/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 188. The latter two categories apply only to transactions exceeding CFAF 100,000 f.o.b., or CFAF500,000 f.o.b. for essential goods.
3/ Ibid.
4/ Republic of the Ivory Coast, Ministry of Trade, Decree No. 75-422, June 12, 1975.
5/ ***.
6/ Government of the Ivory Coast, Ministry of Trade, Decree No. 137, June 25, 1975.

***. 1/ Presentation of a CRF is necessary both to release goods from customs and to effect payment. SGS is allowed to approve prices that exceed the amount declared in the import license. There is no limit on this amount. The maximum buying agent's commission permitted is 5 percent of the total invoice price.

Exemptions.--* * * * *.

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Performance of the program.--The Government of the Ivory Coast has received complaints by both importers and exporters regarding the program. For example, an Ivorian maker of small corrugated boxes imported from the International Paper Co. a shipment of kraft liner that was refused SGS clearance. The imports were finally permitted under bond after the paper company argued that the high price was appropriate considering the relatively small quantity of paper involved in the shipment. 2/ The U.S. Embassy has observed that the Ivorian Government seems intent on retaining the inspection program "despite the fact that customs fraud has increased, not diminished, in the 12 years since the program was instituted." 3/

U.S. Department of Commerce data

The total number of shipments to the Ivory Coast in 1986 was 1,887. (The size of shipments and size distribution of shipments during 1986 to the Ivory Coast are presented in table 3-30.) Sixty-three percent of shipments ranged from $1,001 to $10,000. Over 91 percent of all shipments were $50,000 or less. Eleven percent of the total value of all shipments (9.4 percent of the total number) were made to related parties.

1/ ***.
2/ ***.
3/ ***.

Table 3-30.--Percent of total number of shipments to the Ivory Coast, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $2,000	21.1
$2,001 to $3,000	11.4
$3,001 to $4,000	8.0
$4,001 to $5,000	6.4
$5,001 to $10,000	15.8
$10,001 to $25,000	20.2
$25,001 to $50,000	8.3
$50,001 to $100,000	3.4
More than $100,000	5.3

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to the Ivory Coast of the sampled respondents amounted to $10.9 million, or 18.4 percent of the total value of all U.S. exports to the Ivory Coast in 1986. Eighty-one percent of the value of reported shipments to the Ivory Coast in 1986, valued at $8.8 million, were inspected. The total number of shipments reported was 298, of which 107 were estimated inspected. 1/

Lost revenues.--Exporters reported that they were required to reduce the price of their exports in 2.7 percent of their inspected shipments. The total value of shipments before the price change amounted to $23,000 and after the price change amounted to $19,000, resulting in a loss of revenue of $4,000, or 17.4 percent of the total value of all affected shipments to the Ivory Coast.

Costs of preshipment inspections.--Exporters reported that delays occurred in 31.9 percent of their shipments to the Ivory Coast which were inspected in 1986. The total value of such shipments amounted to $922,000. The average length of delay was 15 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.27 percent of the value of delayed shipments, or $72 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $68 per affected shipment. Charges for letters of credit discrepancies occurred in 0.9 percent of inspected shipments and cost

1/ The figure for shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

the exporters an average of $40 per shipment affected. Demurrage and other charges have not been imposed on U.S. shipments reported by the respondents (see table 3-31).

Table 3-31.--Estimated average cost per inspected shipment to Ivory Coast

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	31.9	72.00	22.97
Courier fees and telephone calls	2.8	68.00	1.91
Charges for letter of credit discrepancies	0.9	40.00	0.38
Demurrage charges	0.0	0.00	0.00
Other	0.0	0.00	0.00
Total average costs:			
Per shipment inspected	-	-	425.93
As a percent of weighted average value of inspected shipments 2/	-	-	0.5

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Ivory Coast is $82,140.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Ivory Coast is $425.93. Total costs of inspection represents .5 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Ivory Coast, inspection costs represent .4 percent.

Jamaica

Trade with the world

Jamaica's total trade turnover in 1985 amounted to about $1.6 billion. Jamaica ran an overall trade deficit of $430.2 million, reflecting total 1985 imports worth $998.8 million and exports worth $568.6 million.

During 1984, Jamaica held foreign-exchange reserves of $97 million, representing 0.6 month of import coverage. Total external debt totaled $3.1 billion in 1984. Relative to exports of goods and services, Jamaica's total international debt represents $228 for every $100 in 1984 export earnings.

Trade with the United States

Total U.S. exports to Jamaica amounted to $445.6 million in 1986 (table 3-32), or about 0.2 percent of total U.S. exports. In 1985, U.S. exports of $396.1 million accounted for 40 percent of Jamaica's total imports. Jamaican exports to the United States in 1986 totaled $297.9 million, resulting in a U.S. bilateral-trade surplus of $147.7 million with Jamaica. In 1985 the United States realized a bilateral-trade surplus with Jamaica of about $129.1 million. The largest U.S. export category to Jamaica in 1986 was animal and vegetable products, valued at $106.6 million, followed by chemicals and related products, valued at $101.7 million, and machinery and transportation equipment, valued at $87.5 million.

Table 3-32.--Value of total U.S. exports to Jamaica, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1...........	Animal and vegetable products..............	115,770	106,550
2...........	Wood and paper: printed products...........	28,010	27,285
3...........	Textile fibers and textile products........	43,297	60,093
4...........	Chemicals and related products.............	69,620	101,748
5...........	Nonmetallic minerals and products..........	6,566	5,116
6, pts. 1-3	Metals and metal products..................	12,601	11,266
6, pts. 4-6	Machinery and transportation...............	74,814	87,514
7...........	Miscellaneous and nonenumerated products...	28,143	24,650
8...........	Special classifications division--other....	17,249	21,397
	Total................................	396,070	445,619

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The Bank of Jamaica (the Central Bank) administers exchange control on behalf of the Minister of Finance. The exchange rate of the Jamaican dollar in terms of the U.S. dollar is determined at an auction conducted twice a week by the Bank of Jamaica. Commercial banks are designated as authorized dealers for transfers from external accounts, but service payments continue to require the specific approval of the Bank of Jamaica. The Minister of Industry and Commerce oversees foreign trade.

Jamaican imports are subject to a global annual ceiling. Raw materials and capital goods may be imported freely from all sources on an open general license. All other imports require specific licenses. Specific import licences are issued by the Trade Administrator of the Ministry of Industry and Commerce. Import permits are issued for imports up to specified value quotas for items not on a restricted list. For some goods, licenses are not normally issued unless they originate in countries that are members of the Caribbean Common Market (CARICOM). Certain food items and all motor vehicles may be imported only by the Jamaica Commodity Trading Corp., a public sector agency.

Specific export licenses are required for export of some products such as certain agricultural products, ammunition, explosives, firearms, antique furniture, readymade garments, gold bullion, mineral and metal ores, and antique paintings. Exporters are required to surrender their exchange proceeds to authorized banks within 3 months from the date of shipment. 1/

Payments for imports are delegated to the commercial banks and can be settled without resort to the Bank of Jamaica. To receive foreign exchange from the commercial banks, the importer must present the bank with copies of invoices, or other evidence of purchase and value, with documents showing that the goods have been shipped or are about to be shipped. Approval by the Exchange Control Department of the Bank of Jamaica is required only for advance payments in excess of $2,000. A 10-percent stamp tax is applied to all imports except crude petroleum, basic food items, fuel for utility companies, most raw materials, imports from CARICOM countries, and imports of the Government. 2/

Preshipment inspection program

A contract between the Revenue Board and SGS was signed on December 5, 1985. The PSI program went into effect on January 27, 1986, under the Customs (Amendment) Regulations. 3/ In April 1986, Jamaica announced that it will not renew its contract with SGS when the current contract expires in 1988.

The purpose of the program, as described by the Revenue Board in January 1986, is to reduce the incidence of illegal importation and customs practices and to protect revenue. 4/ The paper further described the benefits to

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1/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 315.

2/ IMF, p. 314.

3/ The Customs (Amendment) Regulations, 1986, The Jamaica Gazette Supplement, Vol. CIX, No. 11B, Jan. 27, 1986.

4/ The Revenue Board, Ministry Paper No. 3, "Pre-shipment Inspection and Price Verification of Imports and Exports," Jan. 7, 1986. The Government intended to implement a second phase of the program covering exports, but with the cancellation of the PSI contract with SGS, plans for the second phase are not clear.

importers of the program as ensuring that quality goods are supplied, eliminating the dumping of inferior goods, and ensuring a fair market price. The specific purposes of the SGS inspection and price verification were spelled out clearly in the Ministry paper. These purposes included the following:

(i) to ensure that the country obtains a fair value for both imports and exports;

(ii) to prevent capital outflow through over-invoicing of imports and under invoicing of exports;

(iii) to avoid loss of import duties through under-invoicing of imports;

(iv) to prevent trans-national companies from using transfer pricing mechanism to relocate profits;

(v) to guard against hidden or excessive local commissions;

(vi) to ensure the repatriation of commission by local agents;

(vii) to provide the relevant government agencies with the support necessary for the initiation of investigation of irregularities in foreign exchange operations. 1/

Procedures for the PSI program are outlined in the Revenue Board's Notice to Imports and Commercial Banks. 2/ Importers are required to complete an Advice of Intention to Import (A-11 form) and file this with the Revenue board along with other supporting documents for all import transactions. If the transaction is exempt from PSI requirements the Revenue Board will indicate as such on the A-11 form. Generally, shipments worth $5,000 and above are subject to PSI unless they are on the list of exemptions (see below). In an unusual practice, SGS is directed to report cases of underinvoicing to the Revenue Board, but to nonetheless issue a CRF. 3/

A number of means of ensuring compliance with PSI requirements are set out. An importer who fails to submit the proper documentation to customs officers, including a CRF, shall incur a penalty of $1,000 per transaction. 4/ A copy of the SGS CRF, or an A-11 form showing proof of exemption must be presented to clear goods at customs. ***

1/ The Revenue Board, Ministry Paper No. 3, "Pre-shipment Inspection and Price Verification of Imports and Exports," Jan. 7, 1986.

2/ The Revenue Board, Notice to Importers and Commercial Banks, "Pre-shipment Inspection of Imports into Jamaica," Jan. 7, 1986.

3/ SGS, "Pre-shipment Inspection of Imports to Jamaica: Information to Importers," ***.

4/ The Revenue Board, Ministry Paper No. 3, "Pre-shipment Inspection and Price Verification of Imports and Exports," Jan. 7, 1986.

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Exemptions.--*   *   *   *

***, 2/ *** .

*   *   *   *   *.

Performance of the program.--When announcing Jamaica's intention not to renew its SGS contract, Prime Minister Seaga was quoted as saying that "While the surveillance operations of SGS generated sufficient savings to pay the cost of its contractual arrangements . . . these savings were insufficient to warrant the renewal of the contract." 3/ The inspection program will be discontinued but, according to the Prime Minister, the price comparison aspect will be carried out by the recently reorganized Jamaican customs service.

The Jamaican private sector was displeased with the PSI program. A law suit filed in May 1986 by the Jamacia Manufacturers Association, naming SGS, the Revenue Board, and the Jamaican Government as defendants, sought to recover losses claimed to result from the costs of the PSI. Concurrently, a Jamaican columnist, Carl Stone, echoed popular sentiment as he noted the irony of Prime Minister Seaga, who was elected on a deregulation stance, instituting a program such as PSI. He described the use of SGS as an attack on the integrity of the private sector and said the solution was out of proportion to the extent of the problem. 4/ The extent of public displeasure with the

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1/ ***.
2/ ***.
3/ James Canute , "Jamaica to End SGS Contract," Journal of Commerce, Apr. 28, 1987.
4/ ***.

program may have played a role in the eventual cancellation of the SGS contract. 1/

Under the terms of its contract, SGS was required to report quarterly to the Government on the "visible results" of PSI activities. Items to be reported included the price reductions obtained, quality and quantity anomalies corrected, cases of underinvoicing reported, etc. Although the Commission did not obtain copies of any of these reports, press coverage at the time of some of the first quarterly reports vaguely described results as favorable. 2/ ***. *** 3/ ***.

U.S. Department of Commerce data

The total number of shipments to Jamaica in 1986 was 27,826. (The size of shipments and size distribution of shipments during 1986 to Jamaica are presented in table 3-33.) Seventy-five percent of shipments ranged from $1,001 to $10,000. Over 95 percent of all shipments were $50,000 or less. Twelve percent of the total value of all shipments (14 percent of the total number) were made to related parties.

Table 3-33.--Percent of total number of shipments to Jamaica, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	59.6
$5,001 to $10,000	15.7
$10,001 to $25,000	14.1
$25,001 to $50,000	5.8
$50,001 to $100,000	2.8
More than $100,000	2.0

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

1/ Suit reported during May and June 1986 in unclassified U.S. Embassy reports recounting Jamaican press accounts, The Financial Times, May 28, 1986, and in Caribbean Business, June 4, 1986, p. 7.
2/ ***.
3/ ***.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Jamaica of the sampled respondents amounted to $92.4 million, or 21 percent of the total value of all U.S. exports to Jamaica in 1986. Forty-five percent of the value of reported shipments to Jamaica in 1986, valued at $41.6 million, were inspected. The total number of shipments reported was 12,547, of which 2,034 were estimated inspected. 1/

Lost revenues.--Exporters reported that in 1.3 percent of the number of inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $5.6 million and after the price change amounted to $4.9 million, resulting in a loss of revenue of $700,000, or 12.5 percent of the total value of all affected shipments to Jamaica.

Costs of preshipment inspections.--Exporters reported that delays occurred in 27.4 percent of the number of shipments to Jamaica which were inspected in 1986. The total value of such shipments amounted to $14.3 million. The average length of delay was 17 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.31 percent of the value of delayed shipments, or $80 per delayed shipment.

The costs most frequently incurred by the exporters for the PSI process were courier fees and telephone calls. The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $60 per affected shipment. Charges for letter of credit discrepancies occurred in 2.2 percent of inspected shipments, and cost the exporters an average of $20 per affected shipment. Other charges occurred in 8.1 percent of the number of inspected shipments to Jamaica, and cost an average of $85 per affected shipment (see table 3-34).

Total average cost per inspected shipment to Jamaica is $456.92. Total costs of inspection represents 2.3 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Jamaica, inspection costs represent 1.0 percent.

1/ The figure for shipments inspected is estimated from data supplied by exporters in response to the Commission Questionnaire.

Table 3-34.--Estimated average cost per inspected shipment to Jamaica

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	27.4	80.00	21.92
Courier fees and telephone calls	44.8	60.24	27.01
Charges for letter of credit discrepancies	2.2	20.45	0.44
Demurrage charges	2/	85.71	0.04
Other	8.1	84.79	6.84
Total average costs:			
Per shipment inspected	-	-	456.92
As a percent of weighted average value of inspected shipments 3/	-	-	2.3

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Less than one-tenth of 1 percent (0.49).
3/ Estimated average value of inspected shipments to Jamaica is $20,180.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Kenya

Trade with the world

Kenya's trade activity with the rest of the world totaled $2.2 billion in 1985. With $942.1 million in exports and $1.3 billion in imports, Kenya recorded an overall trade deficit of $346.9 million.

In 1984, Kenya's gross international reserves totaled $414 million, sufficient to cover 2.6 months of imports. Total external debt accounted for $3.8 billion in 1984, or approximately 234.6 percent of the value of all exports for the year.

Trade with the United States

In 1986, the U.S. exported $67.4 million worth of goods to Kenya, representing 0.03 percent of total U.S. exports. In 1985, U.S. exports to Kenya, valued at $90.5 million, amounted to 0.04 percent of the total U.S. world exports and 7 percent of Kenya's imports (table 3-35). The U.S. bilateral trade deficit was $73.3 million in 1986 and $1.9 million in 1985. In 1984 and 1983, the U.S. had trade surpluses with Kenya of $9.7 million and $1.5 million, respectively.

The largest category of U.S. exports to Kenya in 1986 was machinery and transportation equipment, valued at $31.5 million, or 47 percent of the total U.S. exports to Kenya. Animal and vegetable products, valued at

Table 3-35.--Value of total U.S. exports to Kenya, 1985 and 1986
F.a.s. value, in thousands of dollars

Schedule B No.	Description	1985	1986
1...........	Animal and vegetable products..............	40,885	12,951
2...........	Wood and paper: printed products...........	734	796
3...........	Textile fibers and textile products........	582	387
4...........	Chemicals and related products.............	15,970	12,072
5...........	Nonmetallic minerals and products..........	610	232
6, pts. 1-3	Metals and metal products..................	482	423
6, pts. 4-6	Machinery and transportation...............	20,420	31,458
7...........	Miscellaneous and nonenumerated products...	5,248	4,529
8...........	Special classifications division--other....	5,596	4,563
	Total................................	90,526	67,411

Source: Compiled from official statistics of the U.S. Department of Commerce.

$13.0 million, represented 19 percent of the total U.S. exports to Kenya; chemicals and related products, valued at $12.1 million, represented 18 percent of total U.S. exports to Kenya.

Government trade administration

Kenyan foreign trade matters are handled by the Ministry of Commerce and Industry. Import controls are administered by the Ministry's Director of Internal Trade. Export licensing and other export matters are administered by the Director of External Trade. Two interagency committees, composed of representatives of the Finance, Planning, National Development, and Commerce and Industry Ministries and the Central Bank, oversee national import priorities. The Import Management Committee oversees the import quota system and the Official Import Committee addresses policy issues regarding imports. Exchange control responsibility is delegated to the Central Bank by the Ministry of Finance. Authorized banks are also delegated authority to approve certain payments for imports. 1/

The Kenya shilling is pegged to the special drawing rights (SDR). The rate of the shilling to the U.S. dollar is quoted by the Central Bank on the basis of the U.S. Dollar-SDR rate. The Central Bank guarantees Kenyan commercial banks up to 6 months of foreign exchange in the forward market to cover contracts of exporters and importers. 2/

Imports are subject to import licensing and classified into four schedules (IA, IB, IIAS, and IIB). Schedule I consists of high priority imports. Quotas under schedule IA are set to meet expected demand, and licenses are granted automatically up to the quota limits. Items under schedule IIB are imports domestically produced, or for which substitutes are available from domestic industry, and are subject to quotas. Items under schedule IIAS are mainly high-priority imports (such as petroleum, cereals, and fertilizer), requiring authorization by a state agency. All private sector imports also require a license for allocation of foreign exchange issued jointly by the Central Bank and the Director of Internal Trade.

Preshipment inspection program

PSI with respect to imports went into effect in Kenya on December 1, 1972. The program is administered by the Central Bank and effected through the import-licensing system in order to ensure the effectiveness of exchange controls. 3/

1/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 324.

2/ Ibid.

3/ The Commission was unable to obtain a copy of the contract between Kenya and SGS, but Kenyan regulations implementing the program were provided in material submitted by SGS.

When a Kenyan importer applies for an import license, the application is forwarded to the Central Bank of Kenya for the issuance of a foreign-exchange allocation license. The import application must include, among other items, a full description of the goods, including quantity, quality specifications, and price per unit, and the aggregate price f.o.b. or c.i.f. Payment against letters of credit, or in foreign currency by authorized banks, may not be made unless the documents are accompanied by an SGS CRF. However, customs clearance is not tied to presentation of a CRF.

Exemptions.--Shipments valued at less than K Sh40,000 ($2,493 at exchange rate in effect at yearend 1986) are not subject to PSI. Goods exempted from PSI by Kenya include the following: supplies for diplomatic missions and U.N. organizations, and similar transactions not involving the provision of foreign exchange from Kenya at any time; precious stones; objects of art; explosives; ammunition; weapons; gold; live animals; fresh fruits and vegetables; personal effects, including a used motor vehicle; newspapers and periodicals; gift transactions, goods purchased directly by the Kenya Government; crude oil in bulk; and other bulk supplies imported by oil companies operating in Kenya by special arrangements with exchange control. Exemption may be arranged for specialized capital equipment purchased overseas, when the Central Bank of Kenya is assured by a recognized financial institution that the objectives of quality and quantity inspection and price comparison have been fulfilled without the intervention of SGS. 1/ Countries of supply exempted from Kenya's PSI requirements include the following: Afghanistan, Albania, Bhutan, the People's Republic of China, Guinea, Iraq, Laos, Libya, Mongolia, Nepal, Vietnam, North Korea, Seychelles, Southern Yemen, U.S.S.R., Tanzania, and Uganda.

Performance of the program.--In testimony before the Commission, a former Central Bank Governor referred to severe foreign-exchange shortages as the reason for the institution of the program in 1973, and cited continuing conditions of limited amounts of foreign exchange. He also cited problems of importing goods of substandard quality. 2/ Officials of the Kenyan Central Bank have indicated that they do not believe that customs functions, or the import-licensing system, can substitute for the services rendered by SGS. However, a Kenyan official responsible for export promotion was familiar with problems encountered by Kenyan exporters to other countries requiring PSI. 3/

1/ Government of Kenya, Exchange Control Notice No. 10, Nov. 10, 1981.
2/ Official transcript of proceedings before the U.S. International Trade Commission, Mar. 2, 1987.
3/ ***.

U.S. Department of Commerce data

The total number of shipments to Kenya in 1986 was 3,044. The size of shipments and size distribution of shipments during 1986 to Kenya are presented in table 3-36. Seventy-four percent of shipments ranged from $1,000 to $10,000. About 94 percent of all shipments were under $50,000. Eleven percent of the total value of all shipments (18 percent of the total number) were made to related parties.

Table 3-36.--Percent of total number of shipments to Kenya, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	58.5
$5,001 to $10,000	15.6
$10,001 to $25,000	13.9
$25,001 to $50,000	5.7
$50,001 to $100,000	2.5
More than $100,000	3.7

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Kenya of the sampled respondents amounted to $4.4 million, or 7 percent of the total value of all U.S. exports to Kenya in 1986. Sixty-one percent of the value of reported shipments to Kenya in 1986, valued at $2.7 million, were inspected. The total number of shipments reported was 540, of which 304 were estimated to be inspected. 1/

Lost revenues.--This information was not provided in the questionnaire responses.

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

Costs of preshipment inspections.--Exporters reported that delays occurred in 19.4 percent of the number of shipments to Kenya which were inspected in 1986. The total value of such shipments amounted to $2.8 million. The average length of delay was 14 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.25 percent of the value of delayed shipments, or $120 per shipment delayed.

Charges for courier fees and telephone calls occurred for 8.6 percent of the number of inspected shipments to Kenya, and cost an average of $62 per affected shipment (see table 3-37). Other charges were incurred in 11.2 percent of total number of shipments inspected, and cost an average of $381 per shipment affected.

Table 3-37.--Estimated average cost per inspected shipment to Kenya

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	19.4	120.00	23.28
Courier fees and telephone calls	8.6	62.13	5.32
Charges for letter of credit discrepancies	0.0	0.00	0.00
Demurrage charges	0.0	0.00	0.00
Other	11.2	381.17	42.64
Total average costs:			
Per shipment inspected	-	-	471.91
As a percent of weighted average value of inspected shipments 2/	-	-	5.4

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Kenya is $8,800.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Kenya is $471.91. Total costs of inspection represents 5.4 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Kenya, inspection costs represent 3.2 percent.

Liberia

Trade with the world

Liberia's total trade turnover in 1985 amounted to about $687 million. Liberia ran an overall trade surplus of $185 million reflecting total 1985 imports worth $251 million and exports worth $436 million.

During 1984, Liberia held foreign-exchange reserves of $3 million, representing 0.1 month of import coverage. Total external debt totaled $1.0 billion in 1984. This figure amounted to more than twice the value of exports of goods and services for that year.

Trade with the United States

Total U.S. exports to Liberia amounted to $64.6 million in 1986 (table 3-38), or about 0.03 percent of the total U.S. exports. In 1985, U.S. exports of $71.5 million accounted for 28 percent of Liberia's imports. With 1986 Liberian exports to the United States valued at $81.6 million, the U.S. bilateral trade deficit was $17.0 million for the year, representing an increase from U.S. bilateral trade deficits with Liberia of $2.7 million and $11.4 million recorded in 1984 and 1985, respectively. The 1986 increase in the U.S. bilateral deficit was due to a drop in Liberian imports from the United States that outpaced the gradual fall in Liberian exports to the United States. The largest U.S. export category to Liberia in 1986 was animal and vegetable products, valued at $24.8 million, followed by machinery and transportation equipment, valued at $21.1 million.

Table 3-38.--Value of total U.S. exports to Liberia, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1...........	Animal and vegetable products..............	28,022	24,800
2...........	Wood and paper: printed products...........	2,061	814
3...........	Textile fibers and textile products........	2,480	2,704
4...........	Chemicals and related products.............	3,618	3,084
5...........	Nonmetallic minerals and products..........	414	3,826
6, pts. 1-3	Metals and metal products..................	1,936	1,677
6, pts. 4-6	Machinery and transportation...............	27,199	21,061
7...........	Miscellaneous and nonenumerated products...	2,308	3,050
8...........	Special classifications division--Other....	3,483	3,563
	Total................................	71,521	64,579

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The key Government ministries responsible for trade and finance are the Ministry of Commerce, Industry, and Transportation (MCIT), the National Bank of Liberia (NBL), and to some extent the National Investment Commission.

The Liberian dollar is pegged to the U.S. dollar on a one-to-one basis with no official intervention. 1/ U.S. currency is legal tender in Liberia. The Government places no taxes or subsidies on purchases or sales of foreign exchange. 2/

Liberia does not implement a broad-based general system of import and export licensing. However, to protect local industry, some specific imports are licensed, or assigned quantitative restrictions, by the MCIT and the National Investment Commission. 3/ Prior authorization is required to import a few products such as arms and ammunition, explosives, used clothing, and pharmaceuticals. Export licenses are used mainly to enforce taxation, or certify quality and origin of agricultural products, and to guard the export monopoly of the Liberia Produce Marketing Corp. over certain agricultural goods. 4/ Export licenses are generally issued freely and direct exports of foreign concession holders are exempt from requirements to obtain licenses. In May 1985, Liberia imposed a 10-percent, across-the-board import duty increase, with some specified excemptions.

Preshipment inspection program

On April 1, 1986, Liberia implemented a system of requiring import permits/declarations and PSI. The PSI program is implemented through a contract between SGS Geneva and MCIT, which is responsible for monitoring the program. ***. 5/

The PSI program has a combination of objectives, including preventing underinvoicing and overinvoicing, increasing customs duty collections, preventing shipments not meeting contractual specifications, and preserving foreign exchange. Ministerial Regulation No. MR1/86 of the MCIT announced the

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1/ All dollar signs ($) refer to U.S. dollars, not Liberian dollars, unless otherwise indicated.

2/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 337.

3/ Ibid. Such items include automobile batteries, exercise books and note pads, insecticides, kitchen towels, wheat flour, portland cement, and liquified petroleum gas.

4/ Ibid. Export licenses are required only for precious metals, precious stones, elephant tusks and ivory, wild animals, cement, certain agricultural products, and items such as arms, ammunition, and explosives.

5/ ***.

program on April 7, citing "unfair trade practices," overinvoicing and underinvoicing, declining customs revenue from underinvoicing, and the need to improve "transparency" in the foreign trade of Liberia as reasons for implementation of the program. Guidelines issued by the MCIT state that the program is not intended as an import control, but leaves importers "free . . . to place orders . . . with the seller(s) of their choice." 1/

Importers must submit an Import Permit/Declaration (IPD) with the MCIT Foreign Trade Division for approval. Prior to final approval of the IPD, importers must pay the NBL a nonrefundable deposit of 1.5 percent of the c.i.f. value of goods, or not less than Liberian $120. ***. 2/

Although the NBL is involved in administration of the program, as a practical matter, the PSI program is not linked to import financing. If an NNRF is issued, importers are simply advised in MCIT regulations that payment should not be released to the seller until any discrepancy has been corrected. MCIT instructs Liberian commercial banks that a CRF must be included with the documents submitted to effect payment. Such payment may not exceed the acceptable value shown on the CRF. SGS may approve for payment an amount that exceeds the value of the import declaration by not more than 5 percent.

A CRF also must be presented to Liberian customs. Liberian customs determines the import duty, and whether or not imports will be released if quality or quantity discrepancies remain. All goods, including shipments that have undergone PSI, remain subject to inspection by Liberian customs authorities to ensure against smuggling. Finally, since Liberia maintains domestic price controls, import documents must be presented to the MCIT Division of Price Analysis and Marketing for "price approval" before the goods can be sold in the Liberian market. 3/

Exemptions.--Shipments of less than $3,000 do not require PSI. 4/ Also exempted are duty-free imports such as bona fide gifts, supplies for diplomatic and consular missions, and supplies for U.N. organizations. ***. 5/ ***

1/ Notice to Importers and Commercial Banks, Guidelines on Pre-shipment Inspection of Imports, MCIT, Apr. 7, 1986.
2/ ***.
3/ Republic of Liberia, Ministry of Commerce, Industry and Transportation, "Notice to Importers and Commercial Banks: Guidelines on Pre-shipment Inspection of Imports, Apr. 7, 1986.
4/ Ministerial Regulation No. MR1/86, MCIT, Apr. 7, 1986.
5/ ***.

***. 1/ Certain goods specifically exempted from inspection include the following: gold; precious stones and objects of art; explosives and pyrotechnic products; ammunition, weapons, and implements of war; live animals; fruits, vegetables, fish, meat, and eggs; scrap metals; current newspapers and periodicals; household and personal effects, including used motor vehicles; parcel post; and commercial samples.

Performance of the Program.--The Liberian Government testified at the Commission hearing in March and also submitted formal comments via the U.S. Embassy in Monrovia. At the Commission hearings, testimony was presented by the Deputy Governor of NBL, Nathaniel Patray, and the Assistant Minister of MCIT, Henry K. Jones. After enumerating various trade and foreign-exchange difficulties, Mr. Patray cited the need to prevent exploitation of Liberian importers by foreign suppliers of substandard goods and to preserve foreign exchange and his Government's expectation that SGS services would help improve the overall economic situation. Mr. Patray credited PSI with eliminating shipments of outdated medicines, preventing "numerous" deliveries of substandard goods in violation of contract specifications, and spotting "numerous" cases of underinvoicing for Customs purposes. Asked if the Liberian Government expected PSI to secure its imports at the "best" or "lowest possible price," Mr. Patray responded that this was one of the Government's objectives. 2/ In its official comments regarding PSI to the U.S. Embassy, MCIT made reference to problems of capital flight in developing countries in general, but made no specific references to the scope of the problem in Liberia. 3/

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2/ Official Transcript, Proceedings before the U.S. International Trade Commission, Mar. 2, 1987, pp. 223-229.

3/ "Official Comments of the Ministry of Commerce, Industry and Transportation on Pre-shipment Inspection of Imports into Liberia," Transmitted to the U.S. Embassy, Monrovia, by the Ministry of Foreign Affairs, Jan. 2, 1987.

4/ ***.

5/ ***.

6/ ***.

U.S. Department of Commerce data

The total number of shipments to Liberia in 1986 was 2,787. The size of shipments and size distribution of shipments during 1986 to Liberia are presented in table 3-39. Sixty-five percent of shipments ranged from $1,001-$10,000. Over 91 percent of all shipments were $50,000 or less. Twenty-two percent of the total value of all shipments (27.6 percent of the total number) were made to related parties.

Table 3-39.--Percent of total number of shipments to Liberia, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $2,000	18.3
$2,001 to $3,000	12.6
$3,001 to $4,000	8.2
$4,001 to $5,000	6.6
$5,001 to $10,000	19.5
$10,001 to $25,000	20.6
$25,001 to $50,000	6.0
$50,001 to $100,000	4.6
more than $100,001	3.6

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Liberia of the sampled respondents amounted to $3.4 million, or 5.3 percent of the total value of all U.S. exports to Liberia in 1986. Twenty-seven percent of the value of reported shipments to Liberia in 1986, valued at $918,000 were inspected. The total number of shipments reported was 176, of which 37 were estimated inspected. 1/

Lost revenues.--Exporters reported that in 2.5 percent of their inspected shipments, they were required to reduce the price of their exports to Liberia. The total rounded value of shipments before the price change amounted to $32,000 and after the price change amounted to almost $32,000, resulting in a loss of revenue of less than $50, or 0.2 percent of the total value of all affected shipments to Liberia.

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

Costs of preshipment inspections.--Exporters reported that delays occurred in 27 percent of their shipments to Liberia which were inspected in 1986. The total value of such shipments amounted to $198,000. The average length of delay was 13 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.24 percent, or less than $46 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $175 per inspected shipment. Charges for letter of credit discrepancies, demurrage charges, and other charges were not reported by respondents on U.S. shipments to Liberia (see table 3-40).

Table 3-40.--Estimated average cost per inspected shipment to Liberia

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	27.0	47.00	12.69
Courier fees and telephone calls	8.1	175.00	14.19
Charges for letter of credit discrepancies	0.0	0.00	0.00
Demurrage charges	0.0	0.00	0.00
Other	0.0	0.00	0.00
Total average costs:			
Per shipment inspected	-	-	427.55
As a percent of weighted average value of inspected shipments 2/	-	-	1.7

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Liberia is $25,310.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Liberia is $427.55. Total costs of inspection represents 1.7 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Liberia, inspection costs represent .5 percent.

Madagascar

Trade with the world

In 1985, Madagascar's total trade activity was $785 million. Total 1985 exports of $316 million and total imports of $470 million resulted in a $154 million trade deficit.

Madagascar's $59 million in foreign-exchange reserves was sufficient to cover 1.1 months of imports in 1984. In 1983, total external debt of $2 billion represented more than five and one half times the value of goods and services exported. 1/

Trade with the United States

The value of total U.S. exports to Madagascar fell from $32.6 million in 1985 to $24.7 million in 1986 (table 3-41). Animal and vegetable products accounted for 43 percent of U.S. exports to Madagascar in 1986, or $10.6 million. The second largest category of exports by value was machinery and transportation equipment which amounted to $9.9 million, or 40 percent of exports in 1986. Other major exports to Madagascar in 1986 were special classifications exports, valued at $1.7 million, miscellaneous products, valued at $1.3 million, and chemicals and related products, valued at $1.0 million.

Government trade regime

The Exchange Control Office of the Directorate of the Treasury administers foreign exchange control in Madagascar. The Directorate of Imports in the Ministry of Commerce issues import licenses. Under an import

Table 3-41.--Value of total U.S. exports to Madagascar, 1985 and 1986

(F.a.s. value, in thousands of dollars

Schedule B No.	Description	1985	1986
1	Animal and vegetable products	16,183	10,572
2	Wood and paper: printed products	9	52
3	Textile fibers and textile products	110	106
4	Chemicals and related products	1,437	1,035
5	Nonmetallic minerals and products	1,029	2
6, pts. 1-3.	Metals and metal products	2,135	15
6, pts. 4-6.	Machinery and transportation	8,358	9,936
7	Miscellaneous and nonenumerated products	1,866	1,292
8	Special classifications division--other	1,515	1,651
	Total	32,642	24,660

Source: Compiled from official statistics of the U.S. Department of Commerce.

1/ Figures for 1984 were not available.

program administered by the Ministry of Commerce, import quotas are allocated to importers. Two categories of import quotas are used--those for merchants and those for industrial enterprises, or other final users of imports. An import-liberalization scheme recently abolished quota and licensing restrictions for certain goods, while streamlining regulatory formalities on other products. Since mid-1981, an ad hoc committee made up of representatives of the Central Bank, commercial banks, and the Minister of Finance and Economy have met weekly to administer Madagascar's limited foreign exchange, striving to ensure that imports conform to national priorities and do not exceed available levels of foreign exchange. 1/

Preshipment inspection program

Madagascar's PSI program dates from June 1, 1983. The PSI contract is valid for an initial period of 18 months subject to tacit renewal. The Ministry of Commerce and SGS are the contracting parties to Madagascar's PSI program. Its stated purpose is to improve the balance of payments through price, quality, and quantity, verification. Prevention of customs fraud and illegal capital flight, conservation of foreign exchange, and facilitation of customs clearance are other objectives for the program. In the decree enacting the PSI program, the reasons cited for the program are "to protect the national economy and to watch over the interests of imports." 2/

The CRF is attached to final invoices, which facilitates customs clearance. Without PSI, customs clearance cannot be accomplished, entry of the good is prohibited, and payment stops. If products arrive uninspected, the Government direct the local representative of SGS to inspect the products, or may waive the inspection requirement. Price and quality are the principal reasons cited for issuing an NNFR. It is possible to obtain a waiver from the Government if the findings report only minor discrepancies. 3/

Price comparisons are undertaken to determine the correspondence between prices and freight costs charged customers in Madagascar and "prices generally charged in the supplier country." The price inspection takes place using what the contract describes as "available information." The price inspection is also used to identify repatriable commissions. The SGS contract stipulates that when price comparisons are legally restricted by the exporting country, SGS is bound to undertake inspections in accordance with the regulations. All goods, "especially those intended for industrial and agro-industrial

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1/ International Monetary Fund, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, pp. 341-343.

2/ Interministerial Decree No. 1980/83 of May 11, 1983, published in the Official Gazette of the Government of Madagascar on May 28, 1983, and in effect June 30, 1983.

3/ ***.

infrastructure products," exported to Madagascar must be inspected for price, quality, and quantity. 1/ ***.

Inspections are performed on substantially all imports of general merchandise, equipment and materials, machines and other heavy machines, especially those destined for infrastructure, industrial, and agro-industrial projects. Imports valued under 4 million Malagasy francs (FMG) (about $5,900 at 1986 average rates of exchange) are exempted from the inspection requirement. The cost of inspections is 1.4 percent of the f.o.b. value of each import license (minimum charge FMG60,000, or $80), paid by the importer prior to filing a request for an import license. 2/ The decree also mandates that commission fees to be repatriated from any import transaction are also subject to SGS inspection. 3/

Exemptions.--Products exempted include gold; precious stones; works of art; explosives and fireworks; munitions, weapons and instruments of war; live animals; fresh, frozen, or refrigerated fish; eggs; fresh, refrigerated, or frozen meat; fresh, refrigerated, or frozen fruit and vegetables; salvage metals; personal belongings and household goods, including one used vehicle; current newspapers and periodicals; imports through the mail; gifts; supplies for diplomatic and consular missions; and supplies for agencies of the United Nations that are imported for their own needs. ***. Instead of listing countries exempted from inspections, the contract lists countries where inspections are to be performed. (This list can be found in app. K.)

Another exemption is that the price comparison is not required for raw petroleum and petroleum products delivered in bulk. Only quantity and price inspections are required for pharmaceutical products, dyes, paints, insecticides, pesticides and fungicides, special chemical products, cosmetics, wines (except in bulk) and brand-name spirits, and goods similar to those mentioned in this paragraph. Special chemical products are defined to mean any chemical product produced exclusively by a given manufacturer with a confidential or protected trademark.

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1/ Interministerial Decree No. 1980/83, art. d.
2/ ***.
3/ ***.
4/ ***.

Performance of the program.--A press report published in Madagascar when the PSI program came into effect stated that the likely benefits of the program would be conservation of scarce reserves of foreign exchange and a reduction in "imported inflation." 1/ A more recent report published in the Madagascar press quotes the General Director of Foreign Trade for Madagascar as maintaining that SGS inspections save the country a minimum of FMG500 million (about $740,000) each year. 2/ According to the report, detection and deterrence of fraud through overinvoicing and underinvoicing and avoidance of being a "dumping ground for damaged goods" are results of the program. Complaints by importers regarding delays and increased expenses (a 1.4 percent commission is added to a 10-percent import duty) have characterized the domestic response to the program for the 5 years it has operated in Madagascar. During the first 6 months of the program's operation, there were 850 inspections. Twenty-two of these were not certified--18 because of alleged overbilling, and the remainder either because of avoidance of inspection, or quantity or quality discrepancies.

*** the Government of Madagascar appears pleased with the program as the Malagasy Government cited that price, quality, and quantity conform to market standards; repatriation of commissions has taken place during the contract 3/; foreign exchange is being conserved; operations are undertaken with rapidity; and there is an apparent lack of customs fraud. 4/

The Government of Madagascar is apparently content with the PSI program and its results. In February of 1987, the Director General of External Commerce of the Malagasy Ministry of Commerce discussed the results in a press interview. He claimed that the savings of some FMG816 million (about $1.2 million) in 1984 was due to detection of overinvoicing (58.16 percent), adjustment of freight costs (25.49 percent), discount not deducted in final invoices (7.43 percent), and quality and quantity corrections (8.62 percent). 5/ In a letter to the Commission, the Madagasy Ambassador to the United States stated that his country planned to continue its PSI

1/ Madagascar Matin, June 7, 1983.

2/ Midi Madagasikara, Feb. 16, 1987.

3/ One estimate by the Government of Madagascar places the level of repatriated commission fees detected during the first 3 years of operation of the contract at over FMG500 million (approximately $740,000). This estimate was quoted in a letter from the Minister of Commerce to the U.S. Ambassador in Antananarivo after enquiring about Madagascar's PSI program in response to the Commission's request for information. ***.

4/ ***.

5/ ***. SGS sends the Government of Madagascar quarterly reports of imports inspected and their findings, imports under inspection, and any other relevant subject. The reports are held confidential between SGS and the Government of Madagascar, but this information presumably was aggregated from such reports.

program. He stated that the program did not affect U.S. exports to the country, as there were no apparent objections to the program at the time of its initiation. 1/

Importers in Madagascar complain about delays caused by the inspection process. In addition, they dislike paying the SGS fee, and a mandatory fee of 10 percent on the total value of each request for an import license. The fee was recently enacted as part of an import-/export-liberalization scheme for the country.

U.S. Department of Commerce data

The total number of shipments to Madagascar in 1986 was 507. The size of shipments and size distribution of shipments during 1986 to Madagascar are presented in table 3-42. About 50 percent of shipments were valued at $5,000 or less. Over 91 percent of all shipments were $50,000 or less. Only 24 percent of the total value of shipments (16 percent of the total number) were made to related parties.

Table 3-42.--Percent of total number of shipments to Madagascar by ranges of values in 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	50.1
$5,001 to $10,000	16.8
$10,001 to $25,000	16.4
$25,001 to $50,000	8.1
$50,001 to $100,000	2.0
More than $100,000	6.7

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Madagascar of the sampled respondents amounted to just over $4 million, or 17 percent of the total value of all U.S.

1/ Letter of Feb. 26, 1987, by Ambassador Leon M. Rajaobelina, submitted to the Commission on Feb. 27, 1987, by the law firm Shea & Gardner, representatives of SGS Control Services, Inc.

exports to Madagascar in 1986. Approximately 13 percent of the value of reported shipments to Madagascar in 1986, valued at $530,000, were inspected. The total number of shipments reported was 62, of which 6 were estimated to be inspected. 1/

Information on lost revenues, delays, and other costs of PSI were not reported in questionnaire responses.

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

Mexico

Trade with the world

Mexico's total trade activity with the world totaled $35.3 billion in 1985. Exports worth $21.9 billion and imports worth $13.5 billion resulted in an overall 1985 Mexican trade surplus of $8.4 billion.

Trade with the United States

Mexico is the largest U.S. trading partner covered in this study. Total U.S. exports to Mexico amounted to $13.1 billion in 1985 and $11.9 billion in 1986 (table 3-43), or about 6 percent of total U.S. exports. The largest export category to Mexico in 1986 was machinery and transportation equipment, valued at $6.0 billion, followed by chemicals and related products, valued at $1.6 billion, animal and vegetable products, valued at $1.1 billion, and miscellaneous products, valued at $1.1 billion.

Preshipment inspection program

Mexico's PSI program began in May 1985. The program applies only to direct importation of goods acquired by Federal agencies. The purpose of the program is to control the expenditure of public funds by Government agencies, particularly through the discouragement of fraud and corruption.

Mexican Government agencies are required to provide copies of all purchase orders for imported goods (in excess of 35 million Mexican pesos, or $39,000) to the Director General of Goverment Audit (Direccion General de Auditoria Gubernamental). All purchase orders must include an inspection clause. Nevertheless, the Government determines which of these orders will

Table 3-43.--Value of total U.S. exports to Mexico, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1	Animal and vegetable products	1,682,799	1,083,544
2	Wood and paper: printed products	561,680	579,352
3	Textile fibers and textile products	323,813	373,400
4	Chemicals and related products	1,912,475	1,594,380
5	Nonmetallic minerals and products	217,261	197,592
6, pts. 1-3	Metals and metal products	785,784	654,110
6, pts. 4-6	Machinery and transportation	6,187,077	6,006,731
7	Miscellaneous and nonenumerated products	997,900	1,062,632
8	Special classifications division--Other	415,464	373,109
	Total	13,084,252	11,924,851

Source: Compiled from official statistics of the U.S. Department of Commerce.

actually be inspected. During the first year of operation of the program, the Mexican Government subjected only 19 percent of all Federal agency orders to PSI.

When an inspection is performed, SGS provides a report to the Director General of Government Audit. If a NNRF is issued by SGS, the Director General of Government Audit notifies the purchasing agency. The agency must then decide whether to rescind the contract, in whole or in part, or waive the nonconformity and proceed with the transaction. According to SGS, of the 179 inspections processed for the Mexican Government up until April 30, 1986, seven NNRF's were issued.

U.S. Department of Commerce data

The total number of shipments to Mexico in 1986 was 781,053. The size of shipments and size distribution of shipments during 1986 to Mexico are presented in table 3-44. Sixty-nine percent of shipments ranged up to $10,000. Over 94 percent of all shipments were $50,000 or less. Four percent of the total value of all shipments (41 percent of the total number) were made to related parties.

Table 3-44.--Percent of total number of shipments to Mexico, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	50.6
$5,001 to $10,000	18.7
$10,001 to $25,000	17.6
$25,001 to $50,000	7.8
$50,001 to $100,000	3.4
More than $100,000	1.9

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Mexico of the sampled respondents amounted to $513.8 million, or 4 percent of the total value of all U.S. exports to Mexico in 1986. Less than 1 percent of the value of reported shipments to Mexico in 1986, valued at $3.6 million, was inspected. The total number of shipments reported was 26,478, of which 239 were estimated to be inspected. 1/

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

Lost revenues.--This information was not provided in the questionnaire responses.

Costs of preshipment inspections.--Exporters reported that delays occurred in 11.7 percent of the number of shipments to Mexico which were inspected in 1986. The total value of such shipments amounted to $962,000. The average length of delay was 24 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.43 percent of the value of delayed shipments, or $148 per shipment delayed.

The costs most frequently incurred by the exporters for the PSI process were courier fees and telephone calls, reported in 17.1 percent of the number of shipments inspected. The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $73 per affected shipment (see table 3-45).

Total average cost per inspected shipment to Mexico is $431.93. Total costs of inspection represents 2.8 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Mexico, inspection costs represent less than one-tenth of 1 percent.

Table 3-45.--Estimated average cost per inspected shipment to Mexico

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	11.7	148.00	17.32
Courier fees and telephone calls	17.1	72.75	12.47
Charges for letter of credit discrepancies	2.5	41.67	1.05
Demurrage charges	-	-	-
Other	1.3	33.33	0.28
Total average costs:			
Per shipment inspected	-	-	431.93
As a percent of weighted average value of inspected shipments 2/	-	-	2.78

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Mexico is $15,530.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Nigeria

Trade with the world

Nigeria's world trade turnover in 1985 totaled $21.3 billion. Nigeria realized a 1985 trade surplus of $4.4 billion, resulting from total exports of $12.8 billion and imports of $8.5 billion.

In 1984, Nigeria held foreign-exchange reserves of $1.7 billion--adequate to cover 1.7 months of imports. During this same period, total external debt totaled $19.7 billion, representing 159.5 percent of the value of exports of goods and services for that year.

Trade with the United States

U.S. exports to Nigeria totaled $399.7 million in 1986 (table 3-46), or about 0.2 percent of total U.S. exports. In 1985, U.S. exports to Nigeria of $645.1 million represented roughly 8 percent of Nigeria's imports. The U.S. trade pattern with Nigeria has remained consistent over the past 5 years. With Nigerian exports to the United States of $2.5 billion in 1986, the United States experienced a bilateral trade deficit of $2.1 billion. In 1985, the U.S. deficit with Nigeria was $2.4 billion.

The largest U.S. export category to Nigeria in 1986 was machinery and transportation equipment, totaling $145.5 million, or 36 percent of total U.S. exports to Nigeria. The second largest category was animal and vegetable products, valued at $142.8 million, or 36 percent of total U.S. exports to Nigeria.

Table 3-46.--Value of total U.S. exports to Nigeria, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1	Animal and vegetable products	305,946	142,750
2	Wood and paper: printed products	14,823	8,306
3	Textile fibers and textile products	11,917	15,381
4	Chemicals and related products	58,372	43,508
5	Nonmetallic minerals and products	2,051	3,443
6, pts. 1-3	Metals and metal products	38,787	11,882
6, pts. 4-6	Machinery and transportation	183,625	145,524
7	Miscellaneous and nonenumerated products	23,586	25,438
8	Special classifications division--Other	6,007	3,455
	Total	645,114	399,687

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

Nigeria's Ministry of Trade oversees trade policy and controls. The Ministry of Finance is responsible for determining exchange control policy. Exchange control mechanisms are administered by the Central Bank of Nigeria. The Ministry of Finance has authorized most commercial and merchant banks to deal in foreign currencies in accordance with rules issued by the Central Bank. Nigeria has an independent and flexible exchange-rate policy with respect to its currency, the Naira.

Import licenses and other trade controls are administered by the Ministry of Trade and an Import Licensing Committee. This committee is composed of representatives of the Ministries of Trade, Finance, and Economic Development and of the Central Bank and the Department of Customs and Excise. 1/ All goods imported into Nigeria require a specific import license. The stated purpose of the import-licensing system is to "balance the volume and value of imports to the foreign exchange budget." 2/ Each import license indicates whether or not the transaction is valid for receipt of foreign exchange. When foreign-exchange is not authorized, imports are paid for by drawdown of loan contracts, use of intercompany credit facilities, or use of importers' resources held abroad. Foreign-exchange allocations for import licenses for the manufacturing industy are granted on the basis of (1) whether or not the industry concerned uses local raw materials, (2) the foreign-exchange earnings generated by the company's products, (3) linkage between the company's products and those produced by other industries, (4) the amount of capital and turnover of the company, and (5) geographic location. 3/ After severe bottlenecks were encountered with imports in 1985, the Government requested importers to use up their import licenses in installments during 1986. 4/

Prior to applying for an import license, the importer must have registered an "M form" with authorized foreign-exchange dealers. This form is necessary to open a letter of credit and is also submitted to the Central Bank for review by the Exchange Control Department. Authority for final approval of allocation of foreign exchange, as indicated on an M form, rests with the Central Bank. Foreign exchange is allocated based on three categories of descending priority. First priority includes, among other things, payments for servicing of external debt and certain obligations of the Nigerian Airlines and Nigerian National Petroleum Corp. Second priority is on payments for importation against letters of credit for raw materials, spare parts, medicine, books, and other esssential items. All other payments fall into the third category. Import payments have at times been delayed because of limited availability of foreign exchange in Nigeria. 5/

Export of some items is prohibited, and export of certain other items requires export licenses. Export of certain crops is controlled by commodity boards, and petroleum exports are handled by the Nigerian National Petroleum Corp. All foreign-exchange export proceeds must be surrendered to authorized

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1/ IMF, Exchange Arrangements and Exchange Restrictions, 1986, p. 390.

2/ "Procedures for Imports Into Nigeria," Central Bank of Nigeria and Department of Customs and Excise.

3/ IMF, Exchange Arrangements and Exchange Restrictions, 1986, p. 391.

4/ Euromoney Trade-Finance Report, March 1986, p. 12.

5/ Ibid.

foreign-exchange dealers, and the exporter must submit an exchange-control declaration at the time of shipment.

Preshipment inspection program

Nigeria implemented a PSI program in January 1979 to complement its system of foreign-exchange control. On this date, Nigeria started what it called "preimport processing" to be effected by the Exchange Control Department of the Central Bank of Nigeria. In 1982, in response to reductions in oil export receipts, Nigeria issued new import restrictions, increased PSI requirements, and tightened customs procedures. 1/

The preimport-processing system utilizes M forms submitted by importers through authorized dealers to the Central Bank. The Central Bank endorses copies of the M form and, where PSI is applicable, affixes information on the inspection agent to be contacted in the country of the seller. Where the M form prescribes PSI letters of credit are to stipulate that no payment will be made without submission of a CRF from an inspection agent. Effective October 1, 1984, Nigeria ended its previous PSI contract with SGS and concluded new contracts with three companies. Intertek was contracted to perform inspections on goods bound for Nigeria from North America and South America. Bureau Veritas was awarded the contract for inspections in continental Europe and Africa. Cotecna was contracted for inspections in the United Kingdom, Asia, and the South Pacific.

As of September 1986, a CRF is necessary to clear goods through customs. ***. 2/ ***. 3/ The Government of Nigeria is responsible for paying the fees charged by the inspection companies.

The contract between Nigeria and Intertek covers a 2-year period, automatically extended for 1-year periods unless notice is served by one of the parties. According to its contract, Intertek must, among other obligations, train Nigerian personnel and issue quarterly reports of its activities, including foreign-exchange savings of repatriable commissions. In September 1986, the Nigerian Government involved PSI companies in a program of reimbursing prepaid import duties made necessary by the introduction of a second-tier foreign-exchange market. Since the second-tier rate made imports too expensive for some importers, importers that had obtained import licenses and prepaid customs duties needed to be reimbursed for duties on shipments that

1/ Peter McLachlan, "Nigerian Market Attracts Worldwide Interest," Canadian Business Review, Summer 1982, pp. 18-22.
2/ ***.
3/ ***.

ultimately were not imported. As part of the reimbursement arrangements, the relevant foreign-exchange agent notified the overseas PSI companies that no payment had been made, and the PSI company confirmed the status of the inspection and advised Nigerian customs whether or not to process the application for duty refund. 1/

Exemptions.--Shipments valued below $5,000 are not subject to PSI requirements. ***. 2/ Goods which are exempted from the quality inspection component of PSI include pharmaceutical products, dyestuffs, paints, insecticides, special chemicals, cosmetics, and wine and spirits. Also excluded from price comparison are goods supplied to Nigeria by foreign governments.

Products completely exempted from the PSI requirements include gold, precious stones, objects of art, petroleum and refined petroleum products, explosives and pyrotechnic products, ammunition and implements of war, live animals, fruits and vegetables, scrap metals, household and personal effects, used motor vehicles, parcel post, samples, bona fide gifts, supplies of diplomatic and consular missions, and supplies of U.N. organizations.

Performance of the Program.--In late 1982, the Nigerian Government launched an inquiry into allegations that legislators had been bribed with respect to the impending renewal of the Government contract with SGS. 3/ Newspaper articles reporting the matter were also somewhat critical of the benefits and success of inspection. One article claimed that although SGS had earned more than 100 million Nigerian Naira over 3 years, PSI had not eliminated the flow of illegal and banned imports through private wharves via Benin. 4/ The article also noted that although Nigerian importers would prefer inspection on arrival, Government sources saw this possibility as "years away" in spite of SGS's training of Nigerians to take over inspection centers. Two years after the Government inquiry, the SGS contract was not renewed and the three above-mentioned inspection companies were awarded PSI contracts.

1/ "Payments News," Euromoney Trade-Finance Report, January 1987.
2/ ***.
3/ Among such reports were articles in Lloyd's List, London, March 1, 1982, in New Nigerian, Feb. 23, 1982, and Dec. 12, 1982, and Punch, Feb. 23, 1982.
4/ Lloyd's List, London, Mar. 1, 1982.

U.S. Department of Commerce data

The total number of shipments to Nigeria in 1986 was 5,829. The size of shipments and size distribution of shipments during 1986 to Nigeria are presented in table 3-47. About 53 percent of shipments ranged from $1,001 to $10,000. Over 81 percent of all shipments were $50,000 or less. Nearly 15 percent of the total value of all shipments (about 24 percent of the total number) were made to related parties.

Table 3-47.--Percent of total number of shipments to Nigeria, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	38.2
$5,001 to $10,000	15.1
$10,001 to $25,000	17.9
$25,001 to $50,000	10.5
$50,001 to $100,000	7.0
More than $100,000	11.3

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Nigeria of the sampled respondents amounted to $147.1 million, or about 37 percent of the total value of all U.S. exports to Nigeria in 1986. More than 94 percent of the value of reported shipments to Nigeria in 1986, valued at $138.3 million, were inspected. The total number of shipments reported was 3,058, of which 2,441 were estimated to be inspected. 1/

Lost revenues.--Exporters reported that in 0.6 percent of the number of inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $7,693,000 and after the price change amounted to $7,466,000, resulting in a loss of revenue of $227,000, or about 3 percent of the total value of all affected shipments to Nigeria.

Costs of preshipment inspections.--Exporters reported that delays occurred in 5.7 percent of the number of shipments to Nigeria which were inspected in 1986. The total value of such shipments amounted to $32.1 million. The average length of delay was 28 calendar days.

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.5 percent of value of delayed shipments, or $1,170 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $129 per affected shipment. Charges for letter of credit discrepancies occurred in 0.5 percent of the number of inspected shipments and cost the exporters an average of $32 per affected shipment. Other charges occurred for 1.6 percent of inspected shipments to Nigeria and cost an average of $1,226 per affected shipment (see table 3-48).

Total average cost per inspected shipment to Nigeria is $490.82. Total costs of inspection represents 0.9 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Nigeria, inspection costs represent 0.8 percent.

Table 3-48.--Estimated average cost per inspected shipment to Nigeria

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	5.7	1,170.00	66.69
Courier fees and telephone calls	3.3	128.50	4.21
Charges for letter of credit discrepancies	0.5	31.67	0.16
Demurrage charges	0.0	0.00	0.00
Other 2/	1.6	1,226.00	19.09
Total average costs:			
Per shipment inspected	-	-	490.82
As a percent of weighted average value of inspected shipments 3/	-	-	0.9

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Not all respondents listing "other" costs indicated what those costs represented. Some respondents explained that "other" included expenditures on interest, inventory carrying costs, and personnel. Personnel costs may therefore be double-counted in the total figure for this country.
3/ Estimated average value of inspected shipments to Nigeria is $56,800.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Paraguay

Trade with the world

Paraguay's total trade activity in 1985 was $840 million. In 1985, export earnings stood at $324 million against an import bill of $516 million resulting in a trade deficit of $192 million.

In 1984, Paraguay held foreign-exchange reserves of $677 million--enough to cover 6.6 months of imports. International debt totaled $1.5 billion in 1984, or 165 percent of the value of exports of goods and services.

Trade with the United States

Total U.S. exports to Paraguay amounted to $84 million in 1985 and $127 million in 1986 (table 3-49). The largest export category to Paraguay in 1986 was machinery and transportation equipment, valued at $81 million, and accounting for over 60 percent of the total U.S. exports to Paraguay. Other major export categories included miscellaneous products, valued at $18.5 million, animal and vegetable products, valued at $9.7 million, and textile fibers and textile products, valued at $7.9 million.

Government trade administration

Paraguay maintains a highly overvalued exchange rate for public sector and other selected imports. To prevent abuse of the preferential exchange-rate system and preserve foreign exchange, the Government of Paraguay initiated the PSI scheme in September 1983. The contract between the Ministry of Finance and SGS defines the Central Bank of Paraguay as the enforcing agent.

Table 3-49.--Value of total U.S. exports to Paraguay, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products..............	8,138	9,742
2..........	Wood and paper: printed products...........	317	317
3..........	Textile fibers and textile products........	4,688	7,917
4..........	Chemicals and related products.............	4,704	4,768
5..........	Nonmetallic minerals and products..........	644	338
6, pts. 1-3	Metals and metal products..................	1,686	629
6, pts. 4-6	Machinery and transportation...............	47,602	80,911
7..........	Miscellaneous and nonenumerated products...	12,519	18,530
8..........	Special classifications division--other....	3,755	4,204
	Total................................	84,053	127,356

Source: Compiled from official statistics of the U.S. Department of Commerce.

Preshipment inspection program

Under the inspection program, imports are inspected for price, quantity, and quality with the intention of combating overinvoicing of imports of preferential exchange-rate items. Specifically, the system was designed to conserve foreign exchange. 1/ The imports of Government and State enterprises and imports of inputs for the agricultural sector (including private firms) fall under one of Paraguay's several preferential exchange rates. The minimum inspectable order is up to the discretion of the Bank of Paraguay.

***. Paraguayan customs is responsible for customs valuation.

***. The Central Bank verifies import declarations and determines whether goods are subject to inspection by SGS. 2/ ***. 3/

Exemptions.--* * * * *.

Performance of the program.--SGS and the Central Bank of Paraguay have claimed in recent press advertisements that the PSI program saved the country over $740 million in foreign exchange from inception of the program in September 1983 through the first part of 1986. 4/ During the initial period of the program, September 1, 1983, to June 30, 1985, SGS estimated that $127 million in price, quality, and quantity discrepancies were discovered by the inspection program, and that an additional $127 million in additional benefits of the program were gained through deterrence of fraud. During the last half of 1985, SGS reported that it detected "discrepancies in quality, quantity and price" of $35 million. For this period SGS estimated the "dissuasive effect" of PSI to be an additional $70 million, with increased tax

1/ ***.
2/ Central Bank of Paraguay, Circular No. 52/83, Import Inspection Program, Aug. 30, 1983.
3/ ***.
4/ Neither SGS nor U.S. Embassy sources in Paraguay supplied the Commission with supporting documentation for the savings.

revenues for the country of $3.8 million. SGS estimated that the total benefits to Paraguay because of import and export inspection programs was some $180 million during the first 7 months of 1986. The report stated that SGS estimated savings of foreign exchange on imports--through detection of discrepancies in quantity, quality, and price--at $91 million. SGS estimated that another $91 million in savings of foreign exchange was due to the "dissuasive effect" of PSI programs on attempts to circumvent exchange regulations. 1/ In its report on operation of the program in Paraguay, SGS cites several benefits of inspection of imports and exports--protection of foreign exchange reserves, reduction of imported inflation, improvement in the quality of goods received from abroad, increase in the prestige of Paraguayan exports; curbing the flight of illegal funds abroad, and increased collection of customs duties and tax revenues.

U.S. Department of Commerce data

The total number of shipments to Paraguay in 1986 was 8,818. The size of shipments and size distribution of shipments during 1986 to Paraguay are presented in table 3-50. Sixty-three percent of shipments ranged from $1,000 to $10,000. Over 92 percent of all shipments were under $50,000. Eight percent of the total value of all shipments (7 percent of the total number) were made to related parties.

Table 3-50.--Percent of total number of shipments to Paraguay, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	42.6
$5,001 to $10,000	20.5
$10,001 to $25,000	19.8
$25,001 to $50,000	9.1
$50,001 to $100,000	5.2
More than $100,000	2.7

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Paraguay of the sampled respondents amounted to $15.1 million, or 12 percent of the total value of all U.S.

1/ Based on advertisements placed by SGS and the Central Bank of Paraguay in Paraguay and an article, "Benefits from SGS inspection total $180 million" from Paraguayan press, submitted to the Commission by the U.S. Embassy, Asuncion, Paraguay, in response to the Commission's request for information on PSI programs.

exports to Paraguay in 1986. Seven percent of the value of reported shipments to Paraguay in 1986, valued at $1.1 million, were inspected. The total number of shipments reported was 637, of which 63 were estimated to be inspected. 1/

Lost revenues.--This information was not provided in the questionnaire responses.

Costs of preshipment inspection.--Exporters reported that delays occurred in 36.3 percent of the number of shipments to Paraguay which were inspected in 1986. The total value of such shipments amounted to $283,000. The average length of delay was 37 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.65 percent of the value of delayed shipments, or $80 per shipment delayed.

Charges for courier fees and telephone calls occurred in 17.4 percent of the number of inspected shipments and cost the exporters an average of $171 per affected shipment (see table 3-51). Charges for letter of credit

Table 3-51.--Estimated average cost per inspected shipment to Paraguay

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	36.3	80.00	2.04
Courier fees and telephone calls	17.4	171.25	29.74
Charges for letter of credit discrepancies	6.3	250.00	15.79
Demurrage charges	0.0	0.00	0.00
Other	7.9	273.33	21.57
Total average costs:			
Per shipment inspected	-	-	496.81
As a percent of weighted average value of inspected shipments 2/	-	-	2.8

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Paraguay is $17,680.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

discrepancies occurred in 6.3 percent of the number of inspected shipments and cost an average of $250 per affected shipment. Other charges were incurred in 7.9 percent of inspected shipments and cost an average of $273 per affected shipment.

Total average cost per inspected shipment to Paraguay is $496.81. Total costs of inspection represents 2.8 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Paraguay, inspection costs represent .2 percent.

Rwanda

Trade with the world

In 1985, Rwanda's total trade activity reached $351 million. Total imports of $235 million against total exports of $116 million left Rwanda with an overall 1985 trade deficit of $119 million.

Rwanda's 1984 foreign exchange reserves of $107 million were sufficient to cover 3.9 months of imports. Total external debt in 1984 totalled $281 million.

Trade with the United States

The total value of U.S. exports to Rwanda declined from $5.7 million in 1985 to $4.3 million in 1986, or by 24 percent (table 3-52). The two largest product categories in 1986 were animal and vegetable products, valued at $2.6 million, and special classifications exports, valued at $1.1 million. All other categories of exports combined amounted to less than 15 percent of total exports in 1986.

Government trade administration

The National Bank of Rwanda, which controls foreign exchange transactions for the country shares responsibility with other ministries for determining exchange and foreign trade policy. The National Bank applies a fee of 1 percent of f.o.b. on import licenses using official foreign exchange and on imports subject to SGS inspections. 1/

Table 3-52.--Value of total U.S. exports to Rwanda, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	3,500	2,597
2..........	Wood and paper: printed products...........	4	5
3..........	Textile fibers and textile products........	0	0
4..........	Chemicals and related products.............	12	18
5..........	Nonmetallic minerals and products..........	18	12
6, pts. 1-3	Metals and metal products..................	0	4
6, pts. 4-6	Machinery and transportation...............	286	464
7..........	Miscellaneous and nonenumerated products...	86	121
8..........	Special classifications division--other....	1,775	1,078
	Total..................................	5,682	4,299

Source: Compiled from official statistics of the U.S. Department of Commerce.

1/ IMF, Annual Report on Exchange Agreements and Exchange Restrictions, 1986, p. 434.

Preshipment inspection program

Rwanda's inspection program is directly tied to release of foreign exchange by the Rwandan National Bank, the Central Bank. 1/ The bank will only release foreign exchange in payment for imports after SGS makes an inspection and presents a CRF regarding the price, quality, and quantity of the merchandise in question. The sole application of the CRF is for the release of foreign exchange; it is not used for assessment of customs duties, or to facilitate customs clearance.

*　　　*　　　*　　　*　　　*

**** 2/ *** 3/ ****. 4/ ***. 5/

Products mandated for inspection prior to shipment to Rwanda rarely arrive in Rwanda without having been inspected. If such a case does occur, the bank attempts to undertake the inspections on its own, instead of simply denying payment, as stipulated in the implementing regulations. The most common reason for issuing a NNRF is price considerations. Although the National Bank indicates that appeal of an SGS finding is possible, there are no established appeal procedures and apparently no history of appeals.

*　　　*　　　*　　　*　　　*

***. 6/

1/ ***.
2/ ***.
3/ ***.
4/ ***.
5/ ***.
6/ ***.

<u>Exemptions</u>.--The following goods are exempted from the inspection requirement: gold; precious stones; objects of art; arms and ammunitions destined for the Army; explosives and pyrotechnic articles; living animals; fruits; vegetables; fresh, frozen, and deep-frozen meat and fish; eggs; waste metal; regular newspapers and magazines; personal effects, including a used vehicle; cements; fuels; gifts, supplies to diplomatic and consular missions; supplies for U.N. agencies; imports through the mail; and imports without foreign exchange, unless they represent a contribution to the formation of the capital of a firm or company.

Also exempt from the inspection requirement are goods financed through loans that are supplied directly by foreign governments. Imports supplied directly by foreign governments may be subject to quality and quantity inspections.

Goods originating in the following countries are exempted from the inspection requirement: Afars and Issas Territory (Republic of Djibouti), Afghanistan, Albania, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, the People's Republic of China, Gabon, Guinea, Iraq, North Korea, Laos, Liberia, Libya, Mali, Nigeria, Seychelles and Comoros Island, Sierra Leone, Somali Democratic Republic, South Africa, Syria, Tanzania, Uganda, U.S.S.R., Vietnam, Yemen Arab Republic, the People's Democratic Republic of Yemen, Zimbabwe, and Zaire. 1/

<u>Performance of the program</u>.--* * * * *

* * * * *. 2/

<u>U.S. Department of Commerce data</u>

The total number of shipments to Rwanda in 1986 was 118. The size of shipments and size distribution of shipments during 1986 to Rwanda are

1/ Exemptions listed in Regulatory Communication III/No. 10 concerning the qualitative and quantitative inspection and price comparison of import goods.
2/ ***.

presented in table 3-53. Approximately 44 percent of shipments were valued at $5,000 or less. Over 64 percent of all shipments were $10,000 or less. Ten percent of the total value of shipments (10 percent of the total number) were made to related parties.

Table 3-53.--Percent of total number of shipments to Rwanda, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	44.1
$5,001 to $10,000	20.3
$10,001 to $25,000	11.9
$25,001 to $50,000	11.0
$50,001 to $100,000	1.7
More than $100,000	11.0

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Rwanda of the sampled respondents amounted to approximately $260,000, or 6 percent of the total value of all U.S. exports to Rwanda in 1986. Approximately 9 percent of the value of reported shipments to Rwanda in 1986, valued at $23,000, were inspected. The total number of shipments reported was 10, of which 7 were estimated to be inspected. 1/

Data on delays and lost revenues were not available from questionnaire responses.

Costs of preshipment inspections.--The costs most frequently incurred by the exporters for the PSI process were courier fees and telephone calls. The average cost incurred by the exporters for these additional requirements was estimated to be $5 per affected shipment. Charges for letter of credit discrepancies occurred in 20 percent of the number of inspected shipments and

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

cost the exporters an average of $30 per affected shipment. Other costs occurred for 60 percent of the number of inspected U.S. shipments to Rwanda and cost an average of $125 per affected shipment (see table 3-54).

Table 3-54.--Estimated average cost per inspected shipment to Rwanda

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100	$ 400.67	$ 400.67
Delays	2/	2/	2/
Courier fees and telephone calls	60.0	5.00	3.00
Charges for letter of credit discrepancies	20.0	30.00	6.00
Demurrage charges	-	-	-
Other	60.0	125.00	7.50
Total average costs:			
Per shipment inspected	-	-	417.17
As a percent of weighted average value of inspected shipments 3/	-	-	2.1

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Information not reported on questionnaire responses.
3/ Estimated average value of inspected shipments to Rwanda is $19,960.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Rwanda is $417.17. Total costs of inspection represents 2.1 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Rwanda, inspection costs represent 1.9 percent.

Suriname

Trade with the world

In 1985, Suriname's total trade activity declined from previous years to $612.7 million. Suriname's 1985 trade surplus with the rest of the world was $15.7 million, reflecting $314.2 million in exports and $298.5 million in imports during the same period.

Trade with the United States

Except in 1984, the United States has experienced an annual trade surplus with Suriname for the last 5 years. In 1986, U.S. exports to Suriname of $83.4 million afforded the United States a $44.8 million bilateral trade surplus and represented 0.04 percent of total U.S. exports. In 1985, U.S. exports to Suriname of $84.5 million accounted for 28 percent of Suriname's imports and, again, provided the United States with a trade surplus of $24.4 million. The United States had a trade deficit with Suriname of $6.2 million in 1984, but 1983 and 1982 saw trade surpluses for the United States of $52.3 million and $66.5 million, respectively.

Principal U.S. export categories (table 3-55) to Suriname in 1986 included machinery and transportation equipment amounting to $28 million, or 34 percent of total U.S. exports to Suriname. Exports of chemicals and related products were valued at $24 million, or 29 percent of total U.S. exports to Suriname, and exports of animal and vegetable products totaled $11.6 million, or 14 percent of total U.S. exports to Suriname.

Table 3-55.--Value of total U.S. exports to Suriname, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	12,116	11,621
2..........	Wood and paper: printed products...........	3,184	1,652
3..........	Textile fibers and textile products........	2,188	1,728
4..........	Chemicals and related products.............	23,088	24,274
5..........	Nonmetallic minerals and products..........	7,268	5,166
6, pts. 1-3	Metals and metal products..................	4,237	2,933
6, pts. 4-6	Machinery and transportation...............	24,921	28,147
7..........	Miscellaneous and nonenumerated products...	3,969	4,284
8..........	Special classifications division--other....	3,565	3,554
	Total................................	84,537	83,359

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The Ministry of Transport, Trade, and Industry (MTTI) is responsible for granting import and export licenses. The Central Bank is responsible for allocating foreign exchange for imports once an import license is approved.

Authority to provide foreign exchange is delegated to commercial banks that are authorized by the Foreign Exchange Board. All foreign-exchange transactions also require a license granted by the Foreign Exchange Board. The Suriname guilder is pegged to the U.S. dollar. 1/

Import licenses, which serve as an authorization for payment, are granted by an interministerial committee headed by the MTTI. An import license fee of 1.5 percent and an additional fee of 1.5 percent of c.i.f. value are levied on all imports. Import licenses are required for all imports with the exception of imports by the two mining companies. Foreign companies who pay for imports with their own foreign-exchange holdings are also exempted. Priority is placed on imports of medical supplies, fuels, raw materials, spare parts, and educational supplies in the import-licensing system. A number of locally available foodstuffs and other consumer items are prohibited from imports. Import quotas are also placed on other categories of food and consumer items. The Suriname Central Import Service (CCIS), is the Government agency responsible for most imports of foodstuffs, agricultural inputs, and certain other commodities. The CCIS also checks prices of food products imported by other companies against its own data file of price quotations. 2/

Export licenses for most commodities are issued freely, provided that the exporter surrenders foreign currency proceeds to an authorized bank. The Director of Agriculture, Animal Husbandry, and Fisheries grants approval of export licenses for cattle, pigs, fresh beef and pork, and planting materials. All exports are charged a fee of 1.5 percent of f.o.b. value.

Preshipment inspection program

In December of 1981, the Government issued a decree regarding the control of imported goods. The decree stated that import controls are for the purpose of preventing "unnecessary drain of the national reserves in foreign exchange." 3/ A Note of Explanation attached to the decree states that Government resort to the use of SGS import control services was intended:

> to help the authorities of the importing countries in their management of foreign exchange through controls on quality and quantity of goods to be imported.
>
> to satisfy itself that the quoted prices are in accordance with the level of export prices in the country of export.

1/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 476.

2/ Ibid., p. 477.

3/ Republic of Suriname, Official Gazette, No. 172, Decree No. E.30, Dec. 3, 1981.

To discharge government authorities from a heavy task by providing exports who are unified in a worldwide organization.

to offer help to the authorities in watching against overinvoicing and/or underinvoicing with all their consequences. 1/

A PSI program has been instituted since January 1982 using the services of SGS.

Noncompliance with PSI requirements can be punished with a fine of 25,000 guilders, or the value of the transaction involved, whichever is higher, and the goods may be forfeited. Commercial banks are also held responsible for ensuring that a CRF supports import payment transactions. 2/ PSI is not required for clearance through customs.

Exemptions.--The minimum inspectable order value is $2,500 f.o.b. Although the decree announcing import controls gives the Minister of Economic Affairs authority to indicate exemptions to PSI requirements, none are mentioned in that document. The Commission was unable to obtain a copy of the PSI contract between Suriname and SGS, or any regulations implementing the decree mentioned above. SGS reported to the Commission that its contract with Suriname contains no contractual exemption of certain products, or countries of supply, from PSI requirements.

Performance of the program.--According to U.S. officials in Suriname, newspaper articles published by MTTI indicate that the Government is content with SGS services. 3/ ***. 4/

1/ Ibid.
2/ Ibid.
3/ ***.
4/ ***.

U.S. Department of Commerce data

The total number of shipments to Suriname in 1986 was 5,811. The size of shipments and size distribution of shipments during 1986 to Suriname are presented in table 3-56. Eighty-one percent of shipments ranged from $1,001 to $10,000. Over 96 percent of all shipments were $50,000 or less. Thirty-five percent of the total value of all shipments (35.7 percent of the total number) were made to related parties.

Table 3-56.--Percent of total number of shipments to Suriname, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $2,000	33.7
$2,001 to $3,000	15.1
$3,001 to $4,000	8.7
$4,001 to $5,000	7.3
$5,001 to $10,000	15.8
$10,001 to $25,000	12.8
$25,001 to $50,000	3.5
$50,001 to $100,000	1.4
more than $100,000	1.8

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Suriname of the sampled respondents amounted to $12.1 million, or 14.5 percent of the total value of all U.S. exports to Suriname in 1986. Twenty percent of the value of reported shipments to Suriname in 1986, valued at $2.4 million, were inspected. The total number of shipments reported was 573, of which 71 were estimated to be inspected. 1/

Lost revenues.--Exporters reported that in 11.8 percent of their inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $135,000 and after the price change amounted to $121,000 resulting in a loss of revenue of $14,000, or 10.4 percent of the total value of all affected shipments to Suriname.

Costs of preshipment inspections.--Exporters reported that delays occurred in 19.8 percent of their shipments to Suriname which were inspected

1/ The figure for shipments inspected is an estimate from data supplied by exporters in response to the Commission Questionnaire.

in 1986. The total value of such shipments amounted to $1.3 million. The average length of delay was 15 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.28 percent of the value of delayed shipments, or $250 per shipment delayed.

The costs most frequently incurred by the exporters for the PSI process were courier fees and telephone calls. The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $63 per affected shipment. Other charges occurred in 39.6 percent of inspected shipments and cost the exporters an average of $39 per affected shipment. Respondents reported that charges for letter of credit discrepancies, and demurrage charges have not been imposed on U.S. shipments to Suriname (see table 3-57).

Table 3-57.--Estimated average cost per inspected shipment to Suriname

	Affected shipments		
Type of cost	As percent of no. inspected	Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	19.8	252.00	49.90
Courier fees and telephone calls	48.1	63.14	30.35
Charges for letter of credit discrepancies	0.0	0.00	0.00
Demurrage charges	0.0	0.00	0.00
Other	39.6	38.75	15.34
Total average costs:			
Per shipment inspected	-	-	496.26
As a percent of weighted average value of inspected shipments 2/	-	-	1.5

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Suriname is $34,220.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Suriname is $496.26. Total costs of inspection represents 1.5 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Suriname, inspection costs represent .3 percent.

Tanzania

Trade with the world

Tanzania's total trade turnover of $1.2 billion in 1985 represented a 32-percent increase over the previous year. Tanzania's trade deficit increased in 1985 by 115 percent, rising to $625 million. Total imports reached $926 million over total exports of $301 million.

In 1984, Tanzania held foreign-exchange reserves of $27 million, sufficient to cover 0.3 month of imports. In 1984 the country's total external debt was $3.2 billion.

Trade with the United States

The value of total U.S. exports to Tanzania decreased from $45.9 million in 1985 to $37.7 million in 1986 (table 3-58). The decline in overall exports from the United States can be attributed mainly to a drop in exports of animal and vegetable products. Exports of these products decreased by 68 percent, from $14.9 million in 1985 to $4.8 million in 1986. Machinery and transportation equipment, the largest category of exports in 1986, increased only slightly from $13.2 million to $13.6 million during 1985-86. Other large export categories in 1986 included chemicals and related products, valued at $7.6 million, and special classifications exports, valued at $7.4 million.

Government trade administration

The Bank of Tanzania administers exchange control for the country, which must approve external payments, including those of the island of Zanzibar. 1/ The Bank of Tanzania administers import control on the mainland. The foreign trade operations of Zanzibar are handled by a Board of Trade. Imports valued

Table 3-58.--Value of total U.S. exports to Tanzania, 1985 and 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	14,940	4,776
2..........	Wood and paper: printed products..........	89	469
3..........	Textile fibers and textile products........	1,862	569
4..........	Chemicals and related products............	5,046	7,585
5..........	Nonmetallic minerals and products.........	20	29
6, pts. 1-3	Metals and metal products.................	303	1,098
6, pts. 4-6	Machinery and transportation..............	13,243	13,591
7..........	Miscellaneous and nonenumerated products...	1,686	2,203
8..........	Special classifications division--other....	8,666	7,402
	Total................................	45,854	37,722

Source: Compiled from official statistics of the U.S. Department of Commerce.

1/ Before independence, the Republic of Tanzania was the British Mandate of Tanganyika and Protectorate of Zanzibar.

below TSh10,000 (about $300) financed without official foreign exchange do not require import licenses. Nearly all imports valued over TSh20,000 (about US $600) are subject to PSI by SGS for quality, quantity, and price comparison. 1/

Preshipment inspection program

Inspection of all goods by SGS before shipment to Tanzania has been a legal requirement of the Exchange Control Ordinance since 1972. 2/ The impetus for PSI in Tanzania grew out of perceived capital flight caused by "widespread over-invoicings" of imports. As in most inspection programs, payment for the imports is only possible after SGS issues a CRF regarding quantity, quality, and price. 3/ The main rationale presented for PSI centers on preservation of foreign exchange in a period of worsening terms of trade, namely, increasing prices for imports and declining prices for foreign-exchange-earning exports, such as primary agricultural products. A CRF is not required for customs purposes.

The Commission has not been able to obtain a copy of the SGS contracts with Tanzania and Zanzibar. However, public notices to importers published at the inception of the programs were submitted to the Commission by SGS. In the Tanzanian notice, importers were informed of a 1 percent of f.o.b. fee required to contribute to the cost of inspection. 4/ Shipments valued over TSh20,000 ($600) are subject to the inspection requirement. At the time of the inception of the Tanzania program, items purchased for import by Zanzibar were exempt from the inspection requirement.

Zanzibar's inspection program dates from September 1982. 5/ The program for Zanzibar requires a CRF after inspecting quantity and quality and comparing prices. 6/ Importers are charged a fee of 1 percent of the c.i.f. value of imports to cover the cost of inspection. As in the case of Tanzania, a CRF is not required before goods clear customs.

Exemptions.--Exempt from the inspection requirement listed in Tanzania's notice to importers are (1) gold, precious stones, objects of art, explosives, ammunition, weapons, live animals, fresh fruit and vegetables; (2) goods procured by the East African Community, or its statutory operations; (3) goods procured by the Zanzibar Government, or Zanzibar-based importers for direct

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1/ IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1986, p. 491. U.S. dollar values are based on 1986 average rates of exchange.

2/ Information in this paragraph is based on testimony of Mr. Robert Makani, former Deputy Governor of Tanzania at the Mar. 2, 1987, hearing of the U.S. International Trade Commission.

3/ Petroleum and goods valued below a certain threshold (TSh20,000 or about $600) are exempt from PSI (March 2, 1987, hearing, p. 211).

4/ Bank of Tanzania, "Notice to Importers." Exchange Control Circular No. 203 (undated, but contents indicate publication in the fall of 1972).

5/ People's Bank of Zanzibar, Ltd., Circular No. PBZ/102/49, Aug. 26, 1982.

6/ As with other SGS inspections, the price requirement instructs SGS to "compare the price charged with that generally obtainable elsewhere in the country of supplier so that it can be determined whether or not such price is within reasonable limits of normal export price."

importation into Zanzibar; (4) commodities imported from Kenya, Uganda, the People's Republic of China, Iraq, North Korea, Seychelles, Vietnam, Nepal, Mongolia, Laos, Guinea, Bhutan, Afghanistan, and any other country as the Bank of Tanzania may from time to time specify; (5) consignments with a value in pro forma invoice of less than TSh10,000 (about $300). (However, part shipments in smaller lots against a pro-forma value equal to or exceeding TSh10,000 shall be subject to inspection irrespective of their individual values); (6) commodities procurred by international tender; (7) commodities procured through the Crown Agents for Overseas Governments and Administrations, London; and (8) commodities involving no payment for the goods to be imported into Tanzania, e.g., household and personal effects including a used motor vehicle, gifts, and supplies for diplomatic missions and U.N. organizations. 1/

Performance of the program.--A former Tanzanian official estimated that PSI has saved Tanzania over $50 million through price reductions. However, PSI programs apparently have not completely stopped attempts to transfer capital out of the country through overinvoicing. 2/

U.S. Department of Commerce data

The total number of shipments to Tanzania in 1986 was 1,211. The size of shipments and size distribution of shipments during 1986 to Tanzania are presented in table 3-59. Fifty-six percent of shipments were valued at $10,000 or less. Almost 87 percent of all shipments were $50,000 or less. Six percent of the total value of all shipments (11 percent of the total number) were made to related parties.

Table 3-59.--Percent of total number of shipments to Tanzania, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	34.6
$5,001 to $10,000	21.2
$10,001 to $25,000	21.4
$25,001 to $50,000	9.3
$50,001 to $100,000	6.8
More than $100,000	6.7

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

1/ Bank of Tanzania, "Notice to Importers." Exchange Control Circular No. 203 (undated but contents indicated publication in the Fall of 1972).
2/ Hearing Transcript, p. 210, testimony of Robert Makani, former Deputy Governor of Tanzania.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Tanzania of the sampled respondents amounted to $1.4 million, or 4 percent of the total value of all U.S. exports to Tanzania in 1986. Almost 29 percent of the value of reported shipments to Tanzania in 1986, valued at $406,000, were inspected. The total number of shipments reported was 91, of which 21 were estimated to be inspected. 1/

Lost revenues.--This information was not obtainable from the questionnaires.

Costs of preshipment inspection--Exporters reported that delays occurred in 9.7 percent of the number of shipments to Tanzania which were inspected in 1986. The total value of such shipments amounted to $7,000. The average length of delay was 22 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.39 percent, or less than $20 per shipment delayed.

Other costs reported by the exporters for the PSI process were courier fees and telephone calls. These costs occurred for 4.8 percent of the number of inspected shipments to Tanzania and cost an average of $20 per affected shipment (see table 3-60).

Total average cost per inspected shipment to Tanzania is $402.90. Total costs of inspection represents 2.1 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Tanzania, inspection costs represent .6 percent.

1/ The figure for inspected shipments was estimated from data supplied by exporters in response to the Commission Questionnaire.

Table 3-60.--Estimated average cost per inspected shipment to Tanzania

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	9.7	13.00	1.26
Courier fees and telephone calls	4.8	20.00	0.97
Charges for letter of credit discrepancies	2/	2/	2/
Demurrage charges	2/	2/	2/
Other	2/	2/	2/
Total average costs:			
Per shipment inspected	-	-	402.90
As a percent of weighted average value of inspected shipments 3/	-	-	2.1

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Information not reported on questionnaire responses.
3/ Estimated average value of inspected shipments to Tanzania is $18,880.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Uganda

Trade with the world

Uganda's total trade turnover in 1985 was $718 million. Exports of $395 million and imports of $323 million in 1985 resulted in an overall trade surplus of $72 million.

Trade with the United States

U.S. exports to Uganda in 1986 totaled $4.2 million (see table 3-61). The two major export categories to Uganda during 1986 were machinery and transportation equipment, which accounted for approximately 55 percent of total exports, and special classifications exports, which constituted 25 percent of exports.

Table 3-61.--Value of total U.S. exports to Uganda, 1985 and 1986

(F.a.s. value, thousands of dollars)

Schedule B No.	Description	1985	1986
1...........	Animal and vegetable products.........	678	169
2...........	Wood and paper; printed matter........	135	174
3...........	Textile fibers and textile products...	10	41
4...........	Chemicals and related products........	121	41
5...........	Nonmetallic minerals and products.....	45	6
6, pts. 1-3	Metals and metal products.............	6	28
6, pts. 4-6	Machinery and transportation..........	2,768	2,317
7...........	Miscellaneous and noneumerated products	471	391
8...........	Special classification division--other	515	1,051
	Total...........................	4,749	4,219

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

The Bank of Uganda administers foreign-exchange controls and the Ministry of Commerce is responsible for foreign trade. In the Ministry of Commerce, the Ugandan Advisory Board of Trade issues import licenses. Except for prohibited imports (products from Israel and South Africa), licenses are freely issued. In the case of imports valued at over $20,000, importers must present three pro forma invoices from different suppliers. 1/

1/ IMF, "Annual Report on Exchange Arrangements and Exchange Restrictions, 1986," p. 515.

Preshipment inspection program

Under the terms of Uganda's PSI program with SGS, which dates from July 1982, all goods destined for Uganda, with certain exceptions, must receive a CRF issued by the SGS before payment. The program is administered by the Bank of Uganda. The contract requires inspections of quantity and quality and price comparisons. Goods valued at less than $2,500 f.o.b. are not subject to inspection. 1/ A CRF is not required for customs clearance.

The Commission was not able to obtain a copy of SGS's contract with Uganda. However, a copy of the implementing regulations for the program and the Government's notice to importers were submitted by the SGS to the Commission. Regarding the purpose of the program, the notice to importers states that "the services to be rendered by the SGS will benefit the importer as well as save foreign exchange for the country." The Ugandan program leaves some flexibility to importers for price adjustments after an inspection. The instructions to importers notes that final import invoices need not match exactly the prices declared in the import if (a) the goods have been inspected by SGS, (b) the price is supported by a CRF or (c) any increase in price over the declared price does not exceed 20 percent of the declared total amount cost and freight (C and F). Increases in price in excess of 20 percent require a new license application.

Exemptions.--Goods not subject to preshipment inspection before exportation to Uganda include the following: Gold; precious stones; objects of art; crude oil and refined petroleum; explosives and pyrotechnic products; live animals; fresh, chilled, or frozen fruits; vegetables; fish and meat; fresh eggs; scrap metals; current newspapers and periodicals; personal effects, including used motor vehicles; parcel post; commercial samples; military material; bona fide gifts; supplies to diplomatic and consular missions, U.N. agencies and other international organizations accorded diplomatic status for their own needs; and other goods as may be prescribed by the Bank of Uganda. 2/

1/ Statutory instruments, No. 90, The Bank of Uganda (Pre-shipment Inspection of Imports) Regulations, 1982.

2/ Statutory instruments, No. 90, The Bank of Uganda (Pre-shipment Inspection of Imports) Regulations, 1982.

U.S. Department of Commerce data

The total number of shipments to Uganda in 1986 was 160. The size of shipments and size distribution of shipments during 1986 to Uganda are presented in table 3-62. Nearly half of all shipments were valued at $5,000 or less. Over 90 percent of all shipments were $50,000 or less. Seventeen percent of the total value of all shipments (14 percent of the total number) were made to related parties.

Table 3-62.--Percent of total number of shipments to Uganda by ranges of values in 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	46.9
$5,001 to $10,000	18.1
$10,001 to $25,000	20.0
$25,001 to $50,000	5.6
$50,001 to $100,000	1.9
More than $100,000	7.5

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Uganda of the sampled respondents amounted to $325,000, or 8 percent of the total value of all U.S. exports to Uganda in 1986. Sixty-seven percent of the value of reported shipments to Uganda in 1986, valued at $217,750 were inspected. The total number of shipments reported was 32, of which 15 were estimated to be inspected. 1/

Lost revenues.--This information was not provided in questionnaire responses.

Costs of preshipment inspections.--Exporters reported that delays occurred in 19.5 percent of the number of shipments to Uganda which were inspected in 1986. The total value of such shipments amounted to $29,000. The average length of delay was 25 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.45 percent of the value of delayed shipments, or $43 per shipment delayed.

1/ The figure for inspected shipments was estimated from data supplied by exporters in response to the Commission Questionnaire.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $20 per affected shipment. Information for other charges was not provided in questionnaire responses (see table 3-63).

Total average cost per inspected shipment to Uganda is $411.65. Total costs of inspection represents 2.9 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Uganda, inspection costs represent 2.0 percent.

Table 3-63.--Estimated average cost per inspected shipment to Uganda

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	19.5	43.00	8.38
Courier fees and telephone calls	13.09	20.00	2.60
Charges for letter of credit discrepancies	2/	2/	2/
Demurrage charges	2/	2/	2/
Other	2/	2/	2/
Total average costs:			
Per shipment inspected	-	-	411.65
As a percent of weighted average value of inspected shipments 3/	-	-	2.93

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Information not reported on questionnaire responses.
3/ Estimated average value of inspected shipments to Uganda is $14.050.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Venezuela

Trade with the world

In 1985, Venezuela's total world trade reached $21.6 billion, reflecting an overall trade surplus of $6.8 billion. The country's total exports were $14.2 billion, dwarfing total imports of $7.4 billion.

Venezuela held a healthy stock of foreign reserves in 1984. At $12.4 billion, gross international reserves were sufficient to cover 11.1 months of imports. Total external debt amounted to $34.2 billion, roughly equal to 181.5 percent of the value of all exports of goods and services for the year.

Trade with the United States

In 1986, the U.S. exported approximately $3.1 billion worth of goods to Venezuela (table 3-64). This figure represents about 1.48 percent of total U.S. exports. The U.S. bilateral trade deficit with Venezuela in 1986 amounted to $1.9 billion. The U.S. trade account with Venezuela has been in deficit for the past 4 years. The U.S. bilateral deficits with Venezuela in 1985 and 1984 were $3.4 billion and $3.2 billion, respectively.

Major U.S. export categories to Venezuela in 1986 included machinery and transportation equipment at $1.5 billion, or 49 percent of total U.S. exports to Venezuela, chemicals and related products valued at $508.5 million, or 17 percent of total U.S. exports to Venezuela, and animal and vegetable products amounting to $448.1 million, or 15 percent of total U.S. exports to Venezuela.

Table 3-64.--Value of total U.S. exports to Venezuela, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products..............	630,570	448,113
2..........	Wood and paper: printed products...........	110,605	103,322
3..........	Textile fibers and textile products........	79,456	75,097
4..........	Chemicals and related products.............	463,076	508,463
5..........	Nonmetallic minerals and products..........	74,873	74,622
6, pts. 1-3	Metals and metal products..................	118,688	121,324
6, pts. 4-6	Machinery and transportation...............	1,399,908	1,502,985
7..........	Miscellaneous and nonenumerated products...	181,112	191,336
8..........	Special classifications division--other....	35,518	36,948
	Total..............................	3,093,805	3,062,210

Source: Compiled from official statistics of the U.S. Department of Commerce.

Government trade administration

International trade functions in Venezuela are handled by a variety of agencies. The Ministry of Development and the Ministry of Agriculture and Livestock issue import licenses. Foreign-exchange controls are administered by the Central Bank and Differential Exchange System Office (RECADI) under the Ministry of Finance. Foreign-exchange policy is formulated by an interagency committee chaired by the Finance Ministry, which includes the Ministry of Development, the Ministry of Agriculture and Livestock, the Ministry of Central Coordination and Planning, and the Central Bank. 1/

In December, 1986 Venezuela established a three tier foreign exchange rate system composed of preferential and official rates pegged to the U.S. dollar and a freely floating fluctuating rate. The shift to the three tier system represents a departure from the previous four tier system instituted in 1984. To help control the effect of currency devaluation on import prices and inflation in general, the Government instituted the multiple exchange rate system. 2/ Both systems represent a sharp devaluation of the currency spurred by a severe economic crisis that followed a precipitous drop in oil revenues. Under the new three tier system, the first and most preferential exchange rate of 7.5 Bolivars to the U.S. dollar applies to basic imports and debt service. The second, official, rate of 14.5 Bolivars to the U.S. dollar covers most imports, exports and new investment. All other imports, tourism receipts and private sector capital transactions are eligible for the free market rate of 23.16 Bolivars to the U.S. dollar. 3/

Licenses are required for both import and export transactions in Venezuela. Imports of some items are prohibited, or reserved to the Government. 4/ Many other goods require import licenses, and some of these are subject to quotas to protect the local economy. An importer must obtain an import license from RECADI in order to have access to foreign exchange from the Central Bank. At the time of issuance of the import license, RECADI also issues the foreign-exchange-authorization license. Export licenses, issued by the Ministry of Development, are necessary for the export of goods subject to price controls, or in short supply domestically. Licenses for export of coffee, cacao, rice, and sugar are issued by the Ministry of Agriculture and Livestock. Authorization to export is contingent upon agreement by private exporters to sell export proceeds to authorized banks. 5/

1/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 537.

2/ Testimony of Luis Berrizbeitia, Minister Counselor, Embassy of Venezuela to the United States, before the U.S. International Trade Commission, Mar.2, 1987.

3/ U.S. Department of Commerce, Venezuela: New Foreign Exchange Regulations, ***.

4/ Such items include iron and steel products, luxury food items, apparel, and certain consumer goods. Ibid.

5/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 538.

Preshipment inspection program

In April 1986, the Government issued a decree (reissued with corrections in May) that changed the procedures for granting foreign exchange at preferential rates for imports. 1/ Requirements for PSI were among the changes. Venezuela instituted a PSI program on June 3, 1986. The program is linked with Venezuela's preferential foreign-exchange-system, and is applicable only when private sector importers wish to pay for imports at the preferential third-tier exchange rate of 7.50 bolivars/dollar. PSI is used by RECADI in approving "certificates of conformity" applied for by exporters, in order to verify whether:

> the unit prices stipulated are pursuant to those in effect in the international market, if the importation requested is in conformity with the type of business in which the importer is normally engaged in, and if the values and amounts are pursuant to his habitual business activities. 2/

The Venezuelan Government has concluded no contracts with individual inspection companies, but has authorized three companies (SGS, Bureau Veritas, and Caleb Brett in joint venture with Intertek) from which importers may choose to perform inspections.

An importer applying for foreign exchange at the preferential rate first applies to RECADI for an import license. The importer chooses one of the authorized inspection companies to perform the inspection and issue the required "certificate of verification." A satisfactory inspection prompts issuance of a certificate "without reservations," and, if discrepancies are found, a certificate "with reservations" is issued by the inspection company. If the latter certificate is issued, foreign exchange at the preferential rate is not authorized by RECADI but the importer may presumably go ahead with purchase of the goods using foreign exchange purchased at the free-market rate, since the goods must have already arrived in the country. The certificate of verification either with or without reservations is not required to clear goods through customs.

Under the rules for obtaining preferential foreign exchange under letters of credit, the Central Bank allows immediate release of only 20 percent of the amount authorized. The remaining 80 percent is released after imports have entered Venezuela. Importers are guaranteed foreign exchange at the rate in effect on the date the letter of credit is opened. In February 1987, the Central Bank reportedly announced that 50 percent of the total amount authorized would be released up front. This was not subject to formal decree and is not clearly a permanent change. 3/ When letters of credit are involved, the Central Bank will not provide any of the foreign exchange until goods have cleared customs and the necessary documents are approved by

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1/ Decree No. 1072, Official Gazette of the Republic of Venezuela, Apr. 28, 1986, and as amended by Decree No. 1109, Official Gazette of the Republic of Venezuela, May 26, 1986.

2/ Decree No. 1072, Official Gazette of the Republic of Venezuela, No. 33,458, Apr. 28, 1986.

3/ ***.

RECADI. For imports not subject to letters of credit, the exchange rate applied is that in effect on the date of shipment, or on the date the contract between buyer and seller is signed. In effect, these procedures require foreign suppliers to grant credit terms to Venezuelan importers.

With the inception of the PSI program, the importer was no longer required to post a bond equal to the difference between the amount requested at preferential rates and the amount at free-market rates. 1/ The preferential foreign exchange will cover the cost of the goods plus 10 percent to cover shipping and insurance. RECADI does not authorize preferential foreign exchange to cover interest charges, but has amended the rules to cover the cost of inspection fees at the preferential rates.

The cost of the inspection certification, paid by the importer, is 1 percent of the f.o.b. value of goods. However, the 1-percent inspection fee is actually closer to 3 percent when measured at the free-market rates at which foreign exchange must be purchased to pay the fee. A report *** suggests that the inspection companies may be charging less than the standard specified fee. 2/

As a means of enforcement, RECADI is empowered to punish any action or omission made for the purpose of obtaining illicit benefits of preferential foreign exchange. Punishment may take the form of refusal to grant certificates of conformity or foreign exchange authorizations for up to 2 years following the date of violation and fines of not less than 10 percent, or more than 10 times the amount of foreign exchange involved. 3/

Exemptions.--PSI requirements do not apply to imports purchased with foreign exchange at free-market rates, to public sector purchases, or to purchases by State enterprises. In terms of specific products, only arms are exempted from the PSI requirement.

Performance of the program.--A Venezuelan Government official indicated in testimony before the Commission that the services of PSI companies are required to combat "corrupt practices, which result in illegal profits and capital flight." 4/ He further emphasized that the Venezuelan Government is committed to the "eventual elimination" of the multiple-exchange-rate system, but "considers it to be a necessary transitional mechanism to cushion the inflationary impact" of sharp currency devaluations. 5/

At the outset of the revised import rules and the PSI requirements, industry leaders in Venezuela reportedly criticized them for increasing the power of RECADI, adding costs to imports, and lengthening the amount of time involved in import procedures. According to Venezuelan importers, costs are

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1/ ***.
2/ ***.
3/ Decree No. 1072, Official Gazette of the Republic of Venezuela, No. 33,458, Apr. 28, 1986.
4/ Testimony of Luis Berrizbeitia, Minister Counselor, Embassy of Venezuela, to the United States, before the U.S. International Trade Commission, Mar. 2, 1987.
5/ Ibid.

increased because the cost of necessary financing must be born by the importer at free-market rates and because extended time limits required for requests for preferential foreign-exchange allocation may require interim imports at free-market rates in order to maintain inventories. Criticism was also directed at the fact that the importer may be penalized for failure to meet administrative deadlines or documentation errors beyond his control. 1/

U.S. Department of Commerce data

The total number of shipments to Venezuela in 1986 was 83,464. The size of shipments and size distribution of shipments during 1986 to Venezuela are presented in table 3-65. About 57 percent of shipments ranged from $1,001 to $10,000. Over 85 percent of all shipments were $50,000 or less. More than 19 percent of the total value of all shipments (20 percent of the total number) were made to related parties.

Table 3-65.--Percent of total number of shipments to Venezuela, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	40.4
$5,001 to $10,000	16.6
$10,001 to $25,000	18.5
$25,001 to $50,000	10.4
$50,001 to $100,000	7.3
More than $100,000	6.8

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Venezuela of the sampled respondents amounted to $336.7 million, or about 11 percent of the total value of all U.S. exports to Venezuela in 1986. Nearly 81 percent of the value of reported shipments to Venezuela in 1986, valued at $272.4 million, was inspected. The total number of shipments reported was 5,626, of which 3,285 were estimated to be inspected. 2/

Lost revenues.--Exporters reported that in 0.3 percent of the number of inspected shipments, they were required to reduce the price of their exports. The total value of shipments before the price change amounted to $687,000 and

1/ ***.
2/ The figure for inspected shipments was estimated from data supplied by exporters in response to the Commission Questionnaire.

after the price change amounted to $416,000, resulting in a loss of revenue of $271,000, or 39.4 percent of the total value of all affected shipments to Venezuela.

Costs of preshipment inspections.--Exporters reported that delays occurred in 48.4 percent of the number of shipments to Venezuela which were inspected in 1986. The total value of such shipments amounted to $171.4 million. The average length of delay was 17 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.31 percent of the value of delayed shipments, or $332 per shipment delayed.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $86 per affected shipment. Charges for letter of credit discrepancies occurred in about 1.6 percent of the number of inspected shipments and cost the exporters an average of $60 per affected shipment. Other charges occurred for 28.9 percent of inspected shipments to Venezuela and cost an average of $165 per affected shipment (see table 3-66).

Total average cost per inspected shipment to Venezuela is $643.18. Total costs of inspection represents .8 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Venezuela, inspection costs represent .6 percent.

Table 3-66.--Estimated average cost per inspected shipment to Venezuela

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	48.4	332.00	160.69
Courier fees and telephone calls	38.8	85.59	33.22
Charges for letter of credit discrepancies	1.6	60.28	0.98
Demurrage charges	0.4	7.50	0.03
Other	28.9	164.77	47.59
Total average costs:			
Per shipment inspected	-	-	643.18
As a percent of weighted average value of inspected shipments 2/	-	-	.78

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Estimated average value of inspected shipments to Venezuela is $82,910 .

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Zaire

Trade with the world

Zaire's total trade turnover in 1985 amounted to about $2.7 billion. Zaire ran an overall trade surplus of $390 million reflecting total 1985 imports worth about $1.2 billion and exports worth $1.6 billion.

During 1984, Zaire held foreign-exchange reserves of $269 million, representing 1.5 months of import coverage. External long-term public and publicly guaranteed debt owed to the rest of the world stood at $4.1 billion in 1984. This figure represented 132 percent of the value of gross national product for that year.

Trade with the United States

Total U.S. exports to Zaire amounted to $103.4 million in 1986 (table 3-67) or about 0.05 percent of total U.S. exports to the world. U.S. exports to Zaire in 1985 amounted to $102.3 million and accounted for about 9 percent of Zaire's total imports. With Zaire's exports to the U.S. worth $221.1 million in 1986, the United States experienced a trade deficit of $117.6 million with Zaire for the year, a sharp reduction from its 1985 bilateral trade deficit of $298.4 million. This was, in part, due to an almost 45-percent reduction in U.S. imports from Zaire. The largest U.S. export category to Zaire in 1986 was machinery and transportation equipment, valued at $55.9 million, followed by animal and vegetable products, valued at $22.5 million.

Government trade administration

The Bank of Zaire has regulatory authority over all foreign trade and payments. The Office Zairois de Control (OZAC), under the direction of the Department du Commerce Exterieur of the Cabinet du Commisaire D'Etat, is

Table 3-67.--Value of total U.S. exports to Zaire, 1985 and 1986
(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products..............	17,424	22,489
2..........	Wood and paper: printed products...........	485	1,508
3..........	Textile fibers and textile products........	9,489	6,884
4..........	Chemicals and related products.............	3,337	2,340
5..........	Nonmetallic minerals and products..........	128	74
6, pts. 1-3	Metals and metal products..................	2,733	582
6, pts. 4-6	Machinery and transportation...............	56,879	55,895
7..........	Miscellaneous and nonenumerated products...	2,257	1,799
8..........	Special classifications division--other....	9,559	11,855
	Total................................	102,292	103,425

Source: Compiled from official statistics of the U.S. Department of Commerce.

responsible for import and export controls. The foreign-exchange rate of the currency of Zaire is determined by free-market forces, but is fixed on a weekly basis. However, commercial banks are free to negotiate rates on their daily transactions.

All imports are subject to an import declaration filed with authorized banks. Prohibited imports mainly include arms, explosives and ammunition, narcotics, materials contrary to public morals, certain alcoholic beverages, and equipment for aerial and maritime navigation, unless special import authorization is granted by the Executive Council. Prior approval of the Bank of Zaire is required for certain kinds of import transactions (i.e., those financed by foreign grants to residents, foreign supplier credits, or imports that require foreign currency deposits prior to shipment). 1/

All exports require either general or individual export declarations. Foreign-exchange proceeds from exports must be surrendered to the Bank of Zaire within a 90-day period. A limited number of enterprises (notably mining related) are allowed to retain portions of foreign-exchange receipts.

Preshipment inspection program

According to SGS, a PSI program was first instituted in Zaire in October 1968. OZAC has been responsible for verifying and approving quality, quantity, and price of imports since its institution in 1974. The Commission obtained a copy of a contract dated October 20, 1983, authorizing SGS as a foreign agent of OZAC. 2/ ***. Presentation of a CRF is required both for customs clearance and for payment.

Exemptions.--***. SGS reported that the minimum inspectable order is valued at $1,300.

Performance of the program.--No information was available to the Commission regarding attitudes of the Zairian private sector or Government regarding the program or its usefulness.

1/ IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1986, p. 557.
2/ ***.

U.S. Department of Commerce data

The total number of shipments to Zaire in 1986 was 3,141. The size of shipments and size distribution of shipments during 1986 to Zaire are presented in table 3-68. Fifty-eight percent of shipments ranged from $1,001 to $10,000. Eighty-nine percent of all shipments were $50,000 or less. Six percent of the total value of all shipments (11 percent of the total number) were made to related parties.

Table 3-68.--Percent of total number of shipments to Zaire, by ranges of values, 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	40.8
$5,001 to $10,000	17.1
$10,001 to $25,000	20.8
$25,001 to $50,000	10.2
$50,001 to $100,000	6.0
More than $100,000	5.1

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and costs reported by U.S. exporters

The total value of U.S. exports to Zaire of the sampled respondents amounted to $20.1 million, or 19 percent of the total value of all U.S. exports to Zaire in 1986. Eighty-seven percent of the total value of reported shipments to Zaire in 1986, valued at $17.5 million, were inspected. The total number of shipments reported was 244, of which 124 were estimated inspected. 1/

Lost revenues.--Exporters reported that they were required to reduce the price in 3.9 percent of the number of inspected shipments. The total value of shipments before the price change amounted to $209,000 and after the price change amounted to $198,000, resulting in a loss of revenue of $11,000, or 5.3 percent of the total value of all affected shipments to Zaire.

Costs of preshipment inspections.--Exporters reported that delays occurred in 29.9 percent of the number of shipments to Zaire which were inspected in 1986. The total value of such shipments amounted to $15 million. The average length of delay was 17 calendar days.

1/ The figure for inspected shipments was estimated from data supplied by exporters in response to the Commission Questionnaire.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.31 percent of the value of delayed shipments, or $1,250 per shipment delayed.

The costs most frequently incurred by the exporters for the PSI process were courier fees and telephone calls. The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $52 per affected shipment. Charges for letter of credit discrepancies occurred in 1.6 percent of the number of inspected shipments and cost the exporters an average of $150 per affected shipment. Demurrage and other charges occurred for 12.1 percent and 23.4 percent, respectively, of the number of inspected shipments to Zaire and cost an average of $125 and $1,137, respectively, per affected shipment (see table 3-69).

Table 3-69.--Estimated average cost per inspected shipment to Zaire

	Affected shipments		Estimated average
Type of cost	As percent of no. inspected	Average reported cost	cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	29.9	1,253.00	374.65
Courier fees and telephone calls	30.7	51.67	15.88
Charges for letter of credit discrepancies	1.6	150.00	2.43
Demurrage charges	12.1	125.00	15.16
Other 2/	23.5	1,136.50	266.65
Total average costs:			
Per shipment inspected	-	-	1,075.34
As a percent of weighted average value of inspected shipments 3/	-	-	0.8

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Respondents listing "other" costs for shipments to this country did not indicate what these costs represented.
3/ Estimated average value of inspected shipments to Zaire is $142,220.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Total average cost per inspected shipment to Zaire is $1,075.35. Total costs of inspection represents .8 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Zaire, inspection costs represent .7 percent.

Zambia

Trade with the world

Zambia's total trade turnover in 1985 was $1.3 billion. With total imports of $513 million and total exports of $788 million, Zambia reported an overall 1985 trade surplus of $275 million.

In 1984, Zambia held foreign-exchange reserves of $55 million, sufficient to cover 0.6 month of imports. Total external debt totaled $3.9 billion in 1984.

Trade with the United States

The value of total U.S. exports to Zambia declined from $59.4 million in 1985 to $34.7 million in 1986, or by 42 percent (table 3-70). The largest export category was machinery and transportation equipment, which declined from $42.7 million in 1985 to $20.7 million in 1986. The value of exports of animal and vegetable products rose from $6.6 million to $10.2 million in 1986, or by 53 percent. The combined value of all other categories of exports accounted for 11 percent of total exports in 1986, or $3.9 million.

Government trade administration

Zambia's preshipment inspection program has been in effect since February 1, 1978. The Bank of Zambia, the Central Bank, signed the contract with SGS, administers the program, and is responsible for exchange control. The Ministry of Commerce is responsible for the control of trade and issuance of import and export licenses, with overall import policy determined by the Ministerial Committee on Foreign Exchange. Importers bid for foreign exchange before letters of credit may be opened, with transactions subject to approval by the Bank of Zambia. 1/

Table 3-70.--Value of total U.S. exports to Zambia, 1985 and 1986

(F.a.s. value, in thousands of dollars

Schedule B No.	Description	1985	1986
1..........	Animal and vegetable products.............	6,639	10,156
2..........	Wood and paper: printed products...........	122	324
3..........	Textile fibers and textile products........	415	242
4..........	Chemicals and related products............	4,160	731
5..........	Nonmetallic minerals and products..........	421	5
6, pts. 1-3	Metals and metal products.................	598	101
6, pts. 4-6	Machinery and transportation...............	42,667	20,656
7..........	Miscellaneous and nonenumerated products...	2,338	1,113
8..........	Special classifications division--other....	2,045	1,366
	Total................................	59,405	34,694

Source: Compiled from official statistics of the U.S. Department of Commerce.

1/ IMF, Annual Report on Exchange Agreements and Exchange Restrictions, 1986, p. 559.

PSI program

*   *   *   *   *

***. 1/   ***. 2/   ***. 3/

*   *   *   *   *.

Exemptions.--*   *   *   *   *.

*   *   *   *   *.

*   *   *   *   *.

1/ ***.
2/ ***.
3/ ***.

*   *   *   *   *.

Performance of the program.--In a submission to the Commission, a former Zambian Government official presented his view on the reasons for Zambia's PSI program. He stated that U.N. sanctions against (then) Rhodesia 1/ necessitated the inspection regime "to prevent Zambia *** being used either as a conduit for sanction-busters or *** losing money because of false documentation. Indeed there were many instances where orders originating from Zambia and paid for from Zambia were delivered to South Africa or Rhodesia." 2/ Other reasons cited for the creation of the program in Zambia were difficulties in ocean trade, the Middle East war, and prevention of short or improper shipments from being sent to Zambia.

*   *   *   *   *. 3/

U.S. Department of Commerce data

The total number of shipments to Zambia in 1986 was 908. The size of shipments and size distribution of shipments during 1986 to Zambia are presented in table 3-71. Nearly half of all shipments to Zambia were valued at $5,000 or less. Eighty-nine percent of all shipments were $50,000 or less. Eight percent of the total value of all shipments (11 percent of the total number) were made to related parties.

1/ Rhodesia became Zimbabwe in 1980, two years after Zambia's PSI program had been instituted.
2/ Letter to the Commission written by E.A. Kashita, Feb. 11, 1987, and submitted to the USITC on Feb. 26, 1987, by Shea & Gardner, counsel for SGS.
3/ ***.

Table 3-71.--Percent of total number of shipments to Zambia by ranges of values in 1986

Value of shipments 1/	Percent of total number of shipments 2/
$1,001 to $5,000	46.9
$5,001 to $10,000	15.0
$10,001 to $25,000	17.5
$25,001 to $50,000	9.6
$50,001 to $100,000	4.5
More than $100,000	6.5

1/ Shippers export declarations are not filed for items valued at $1,000 or less and exported under a general license.
2/ Percentages may not add to 100 due to rounding.

Source: Compiled from export declarations provided by the U.S. Department of Commerce, Bureau of the Census.

Problems and cost reported by U.S. exporters

The total value of U.S. exports to Zambia of the sampled respondents amounted to $2.6 million, or 7 percent of the total value of all U.S. exports to Zambia in 1986. Ninety-two percent of the value of reported shipments to Zambia in 1986, valued at $2.4 million, were inspected. The total number of shipments reported was 91, of which 45 were estimated to be inspected. 1/

Lost revenues.--This information was not provided in the questionnaire responses.

Costs of preshipment inspection.--Exporters reported that delays occurred in 6.6 percent of the number of shipments to Zambia which were inspected in 1986 (table 3-72). The total value of such shipments amounted to $1.4 million. The average length of delay was 16 calendar days.

At an annual market rate of interest in 1986 of 6.5 percent for commercial paper, these delays cost U.S. exporters an average of 0.29 percent of the value of delayed shipments, or $1,353 per shipment delayed.

1/ The figure for inspected shipments was estimated from data supplied by exporters in response to the Commission Questionnaire.

The average cost incurred by the exporters for courier fees and telephone calls was estimated to be $161 per affected shipment. Additional information on costs of the PSI's was not obtainable from questionnaires.

Total average cost per inspected shipment to Zambia is $ 500.61. Total costs of inspection represents 1.0 percent of the weighted average value of inspected shipments. As a percent of the total value of all reported shipments to Zambia, inspection costs represent 0.9 percent.

Table 3-72.--Estimated average cost per inspected shipment to Zambia

Type of cost	Affected shipments: As percent of no. inspected	Affected shipments: Average reported cost	Estimated average cost per inspected shipment
Personnel 1/	100.0	$ 400.67	$ 400.67
Delays	6.6	1,353.00	89.30
Courier fees and telephone calls	6.6	160.50	10.64
Charges for letter of credit discrepancies	2/	2/	2/
Demurrage charges	2/	2/	2/
Other	2/	2/	2/
Total average costs:			
Per shipment inspected	-	-	500.61
As a percent of weighted average value of inspected shipments 3/	-	-	1.0

1/ Personnel costs were not provided on a country-by-country basis. Therefore the average of personnel costs reported by all exporters is used.
2/ Information not reported on questionnaire responses.
3/ Estimated average value of inspected shipments to Zambia is $51,920.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

Summary of Costs Reported by Exporters

Table 3-73 summarizes the information on costs of PSI reported by exporters and contained in this chapter. Cost of delays per shipment delayed is estimated using (1) exporter-supplied data on average length of delay and (2) an annual market interest rate for commercial paper in 1986 of 6.5 percent. Lost revenues are the difference between the total value of shipments before and after price reductions which followed a questioning of invoice price for some shipments by an inspection company. Lost revenues are reported on a per shipment inspected basis in the table. Costs incurred by exporters for various occurrences during the PSI process are listed in the final four columns. Where indicated, the relevant data were not obtainable from exporter questionnaires.

Table 3-74 sumarizes the information on frequency of delays, required price reductions, and certain other occurrences resulting from the PSI process, as reported by exporters. Where indicated, the relevant data were not obtainable from exporter questionnaires.

Table 3-74.--Frequency of problems and cost reported by U.S. exporters, 1986
(as a percentage of total inspected shipments)

Percentage of total inspected shipments for which costs incurred due to:

Country	Delays	2/ revenues lost	Courier fees and telephone calls	Charges for letter of credit discrepancies	Demurrage charges	Other
Angola.........	35.5	1/	1/	1/	1/	1/
Boliva.........	51.1	0.5	11.3	1.1	0	2.8
Burundi........	***	***	***	1/	1/	***
Congo..........	1/	1/	1/	1/	1/	1/
Ecuador........	54.6	0.9	19.8	0.7	0.4	6.9
Equatorial Guinea.........	1/	1/	1/	1/	1/	1/
Ghana..........	10.2	1/	1/	1/	1/	4.1
Guatemala......	63.9	0.9	37.7	0.7	3.5	22.9
Guinea.........	1/	1/	1/	1/	1/	1/
Haiti..........	25.1	5.0	28.7	0.6	0.3	18.7
Indonesia......	1/	0.2	29.4	11.2	1.2	6.8
Ivory Coast....	31.9	2.7	2.8	0.9	0	0
Jamaica........	27.4	1.3	44.8	2.2	4/	8.1
Kenya..........	19.4	1/	8.6	0	0	11.2
Liberia........	27.0	2.5	8.1	0	0	0
Madagascar.....	1/	1/	1/	1/	1/	1/
Mexico.........	11.7	1/	17.1	2.5	1/	1.3
Nigeria........	5.7	0.6	3.3	0.5	0	1.6
Paraguay.......	36.3	1/	17.4	6.3	0	7.9
Rwanda.........	1/	50.0	60.0	20.0	1/	60.0
Suriname.......	19.8	11.8	48.1	0	0	39.6
Tanzania.......	9.7	1/	4.8	1/	1/	1/
Uganda.........	19.5	1/	13.0	1/	1/	1/
Venezuela......	48.4	0.3	38.8	1.6	0.4	28.9
Zaire..........	29.9	3.9	30.7	1.6	12.1	23.5
Zambia.........	6.6	1/	6.6	1/	1/	1/
Average 3/	40.0	0.8	25.4	2.4	0.6	11.1

1/ Data not available from questionnaires.
2/ Percent of shipments for which a reduction in price was required.
3/ Average of all countries for which data were available.
4/ Less than 0.1 percent.

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Table 3-73.-- Costs of PSI reported by U.S. exporters, 1986

(in dollars)

Country	Costs: Cost of delays per shipment delayed	Lost revenues per shipment inspected	Cost of inspection per shipments affected: Courier fees and telephone calls	Charges for letter of credit discrepencies	Demurrage charges	Other
Angola	37	1/	1/	1/	1/	1/
Bolivia	68	51	61	25	0	88
Burundi	***	***	***	1/	1/	***
Congo	1/	1/	1/	1/	1/	1/
Ecuador	79	77	64	66	422	167
Equatorial Guinea	1/	1/	1/	1/	1/	1/
Ghana	19	1/	1/	1/	1/	150
Guatemala	128	21	81	54	42	288
Guinea	1/	1/	1/	1/	1/	1/
Haiti	56	237	47	13	500	72
Indonesia	1/	10	93	59	76	407
Ivory Coast	72	37	68	40	0	0
Jamaica	80	297	60	20	86	85
Kenya	120	1/	62	0	0	381
Liberia	47	1	175	0	0	0
Madagascar	1/	1/	1/	1/	1/	1/
Mexico	148	1/	73	42	0	33
Nigeria	1,170	93	129	32	0	1,226
Paraguay	80	1/	171	250	0	273
Rwanda	1/	2000	5	30	0	125
Suriname	252	197	63	0	0	39
Tanzania	13	1/	20	1/	1/	1/
Uganda	43	1/	20	1/	1/	1/
Venezuela	332	82	86	60	8	165
Zaire	1,253	89	52	150	125	1,137
Zambia	1,353	1/	161	1/	1/	1/
Average costs	172	97	81	55	116	308

1/ Data not available from questionnaires.

Source: Compiled from information supplied in response to questionnaires of the U.S. International Trade Commission.

CHAPTER 4. OTHER SUPPLIER COUNTRIES' EXPERIENCES WITH PRESHIPMENT INSPECTION PRACTICES

Introduction

An important consideration with regard to other countries' experiences with PSI is whether or not their exporters are subject to the same practices and procedures as U.S. exporters. Based on information provided by U.S. embassies, the inspection companies, and documents submitted to international organizations, PSI's appear to be conducted in other countries in a manner similar to that in the United States. 1/ However, several countries utilizing PSI programs do exempt the shipments of certain countries from their programs. 2/ Normally, the exempted countries include neighboring countries, certain Middle Eastern countries, and certain centrally planned economies, such as the U.S.S.R. With the exception of the U.S.S.R., no major industrialized countries are included among the exemptions. 3/

Other countries have provided information and expressed their views regarding PSI in response to a demarche of the USTR and in multilateral organizations such as the Customs Valuation Code Committee of the General Agreement on Tariffs and Trade, the Customs Cooperation Council, and the United Nations Economic Commission for Europe (UNECE). The following summarizes other countries' experiences with and reaction to PSI: (1) several countries reported complaints from domestic exporters or trade associations, particularly concerning the price verification procedure of inspections and/or the general delays involved, (2) several countries report having little or no problems with PSI's, as evidenced by a lack of complaints from their exporters concerning any significant problems; and (3) a few countries had preexisting laws or recently passed laws that regulate or limit the activities of PSI companies operating on behalf of foreign governments. Volumes of trade of other supplier countries with those countries requiring PSI are listed in table 4-1.

1/ U.S. Embassy staff spoke with officials in the trade ministries, customs offices, and other relevant agencies in Australia, Austria, Belgium, Denmark, France, Greece, Germany, Ireland, the Netherlands, New Zealand, Spain, Switzerland, and the United Kingdom.

2/ ***.

3/ See individual country sections in ch. 3 for detailed information on the exemptions.

Table 4-1.--Selected countries' exports to PSI countries, by regions, 1985

(In millions of dollars)

Country	Africa	Central and South America	Other 1/	Total
European Community:				
Belgium and Luxembourg........	616	98	193	907
Denmark......................	168	40	29	237
France.......................	1,934	433	708	3,075
Greece.......................	15	2	1	18
Ireland......................	133	36	47	216
Italy........................	814	535	370	1,719
The Netherlands..............	601	202	233	1,036
Portugal.....................	182	13	4	199
Spain........................	515	253	337	1,105
The United Kingdom...........	2,083	415	490	2,988
West Germany.................	1,321	638	1,402	3,361
Total......................	8,382	2,665	3,814	14,861
Other countries:				
Australia....................	27	14	309	350
New Zealand..................	6	34	88	128
Switzerland..................	254	137	212	603
United States................	1,389	5,142	13,624	20,155

1/ Indonesia and Mexico.

Source: U.N. Data.

Industrialized Countries

European Community 1/

The interest of the European Community (EC) in preshipment inspection programs reflects patterns of trade that differ from that of the United States. As shown in table 4-2, trade with the African countries using PSI accounted for 56 percent of the total EC trade with PSI countries, compared with 7 percent for the United States. The concerns of the European countries are thus more focused on the impact of preshipment inspection on trade with certain African countries because their trade with this region is more important to total trade than it is for the United States. Moreover, since PSI programs in African countries generally have operated for much longer than those in Latin American countries, the EC countries have a longer history than the U.S. of experience with PSI requirements. EC trade with Central and South American countries requiring PSI accounts for 18 percent of its total trade with these countries, compared with 26 percent for the United States.

1/ Members of the European Community are Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, the United Kingdom, and West Germany.

Table 4-2.--Comparison of U.S. and EC exports to 26 countries requiring preshipment inspection, by regions, 1985

(In million of dollars)

Region	U.S. exports	Percentage distribution 2/	EC exports	Percentage distribution 2/
Central and South America........	5,142	26	2,665	18
Africa...........................	1,389	7	8,382	56
Other 1/.........................	13,624	68	3,814	26
Total..........................	20,155	100	14,861	100
Exports to the world.............	206,925	-	644,082	-
Total exports to PSI countries as a percent of exports to the world....................	-	10	-	2

1/ Indonesia and Mexico.
2/ Percentages may not add to 100 due to rounding.

Source: U.N. Data

* * * * *

*** 1/ ***. 2/ ***. 3/ ***. 4/

The Netherlands

In the Netherlands, officials of the Dairy Product Board reported being only occasionally informed of exporter problems concerning PSI's, but said the

1/ ***.
2/ ***.
3/ ***.
4/ ***.

issues had been easily resolved. 1/ For example, in a transaction involving butter exports to Indonesia, the Dutch SGS affiliate reported the invoice price was too low. The issue was resolved when the seller demonstrated, with the assistance of the Dairy Product Board, that the price was reduced by the amount of the special butter subsidy for that specific sale.

The Netherlands Ministry of Agriculture and Fisheries, which handles commercial as well as aid-related food exports, contracts with private inspection companies, such as the Dutch SGS affiliate, to certify purchases of food products from one developing country for sale to another as part of certain food aid programs. The Ministry officials reported that when the Government uses PSI companies for these food aid transactions, the participating exporters have applied under specific tendering procedures and requirements, including PSI, that are clearly understood in advance. Regarding the price component of inspections, officials of the Ministry of Agriculture and Fisheries said the practice had not resulted in any problems that could not be resolved by the parties concerned.

France

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* * * * *.

Denmark

* * * * *

1/ ***.
2/ ***.

***. 1/ ***.

* * * * *.

United Kingdom

* * * * *.

*** 2/

* * * * *.

*** 3/ ***.

1/ ***.
2/ ***.
3/ ***.

West Germany

West German officials reported that private firms operate in West Germany to perform PSI's, including price assessments. The West German Government had received an increasing number of complaints, especially with regard to Indonesia, until regulations limiting the activities of inspection companies were introduced in June 1983. 1/ The West German regulations require prior authorization (licensing) of preshipment price inspection activities of companies. (See English translation of regulations in app. F.) The authorization is granted subject to certain limitations which specify, for example, that inspection companies may not request certain confidential business information (CBI) such as patent and licensing agreements; contractual obligations, such as price rebate arrangements; or an exporter's internal pricing data. However, the exporter may supply such documents on a voluntary basis. More generally, the West German regulations require that "uniform criteria, the same as those applied by your worldwide business to other export countries, are to be applied for all evaluations." 2/ Currently, four inspection companies are licensed under the regulations. 3/

In January 1987, West Germany submitted a document to the UNECE outlining its position on PSI programs. 4/ ***. 5/

Other Industrialized Countries

Switzerland

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***. 6/ According to SGS officials, Switzerland has had penal legislation dating back to before World War II that restricts dissemination of certain categories of economic information. 7/ Therefore, in Switzerland, inspection companies perform the

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1/ ***.
2/ English translation of ch. V, art. 1, No. 7, para. 44(a) of German Foreign Trade and Payments Regulations and the Auflagenkatalog (Catalogue of Conditions regarding private control companies) as provided to U.S. Embassy, Bonn.
3/ Letter to USTR from Deryck Tweedley, president, SGS North America, Oct. 2, 1986.
4/ ***.
5/ ***.
6/ ***.
7/ Swiss Criminal Statute, art. 273.

quality and quantity inspections and the price component is subcontracted to a Swiss semigovernment agency. 1/ ***. 2/

New Zealand

New Zealand officials report having received no complaints from exporters on PSI's and have had no dealings with inspection companies such as SGS on an official level. Nevertheless, the officials are concerned generally about the issue of private business involvement in customs valuation. The U.S. Embassy reported that New Zealand's position may be that some aspects of customs valuation should not be handed over to private businesses, particularly when those businesses are given a large amount of discretion in determining countries' pricing policies. 3/ ***. 4/

Australia

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Japan

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***. 7/

1/ Letter to USTR from Deryck Tweedley, president, SGS North America, Oct. 2, 1986.
2/ ***.
3/ ***.
4/ ***.
5/ ***.
6/ ***.
7/ ***.

Nordic countries

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*** 1/ ***.

Nonmarket Economy Countries

People's Republic of China

The PSI contracts of a number of developing countries stipulate that no inspections are to be carried out in China. These countries include Burundi, Ghana, Ivory Coast, Kenya, Tanzania, and Rwanda. ***.

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***. 5/

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2/ ***.
3/ ***.
4/ ***.
5/ ***.

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Eastern Bloc Countries

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*** 2/ ***.

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***. 3/

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***. 4/

1/ ***.

2/ Countries that are full members of COMECON include the U.S.S.R., Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, Cuba, Mongolia, and Vietnam.

3/ ***.

4/ ***.

Other supplier countries exempted from PSI

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Multilateral Efforts to Address PSI

Gatt Customs Valuation Code

One area where the United States and its developed country trading partners are exploring the effects of PSI's is in the GATT Customs Valuation Code. In meetings of the Committee on Customs Valuation, the Code members agreed to discuss PSI in the aforementioned May 1987 meeting. ***.

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***. 1/ ***.

Customs Cooperation Council

In the Customs Cooperation Council, the Joint Export Group on Valuation Fraud has discussed PSI. In January 1987, the group discussed some actions that address the fraud aspects of customs valuation. These actions address some of the concerns for which PSI programs are reportedly implemented. The group decided to develop a manual of valuation fraud information, prepare guidelines for cooperation of valuation fraud, and to request members to provide information on various aspects of valuation fraud.

United Nations Economic Commission for Europe

For some time, European countries have been discussing the issue of PSI's during sessions of the Working Party on Facilitation of International Trade Procedures of the UNECE. In July 1985, the French delegation submitted a paper on PSI to the working party as background for a recommendation being considered to discourage the practice. 2/ ***.

1/ ***.
2/ ***.

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***. 1/

European countries are continuing to pursue discussions of the topic in the UNECE. No formal recommendations have as yet been adopted by the organization.

1/ ***.

CHAPTER 5. RELATED INTERNATIONAL STANDARDS AND U.S. FEDERAL CONTROL PROGRAMS

This chapter discusses certain provisions of the General Agreement on Tariffs and Trade (GATT). The discussion is relevant because some exporters have argued that the activities of the inspection companies violate certain obligations that the contracting countries have under the GATT and under generally accepted principles of the world trading system. Conversely, the inspection companies offer the view that PSI programs wholly conform to international standards and rules. The chapter also discusses the procedures the United States uses to monitor and/or control its own exports and imports.

Related International Standards

In the section 301 petition filed with USTR by certain Florida exporters, in submissions made to the Commission during the course of the investigation, and in testimony at the Commission's public hearings, the Florida exporters and other exporting firms alleged, among other things, that the PSI programs violated GATT articles II (relating to concessions), articles VII, VIII, and X (customs formalities and administration), and XI and XIII (quantitative restrictions), and the GATT agreements (codes) on licensing, customs valuation, technical barriers to trade, and civil aircraft. 1/

SGS, Intertek, and Bureau Veritas in their submissions to USTR in response to the section 301 petition and in submissions to the Commission asserted that the PSI programs are fully consistent with various international agreements, conform to the GATT, and represent an effort by the countries employing the practice to ensure the effectiveness of foreign exchange controls. They also stated that the PSI countries have not signed the GATT codes. The parties for the most part briefed the GATT matters only in general terms. 2/

The debate on the alleged GATT violations focused for the most part on the programs maintained by Ecuador, Guatemala, Jamaica, Paraguay, and Venezuela, since the relief actions requested by the section 301 petitioners were directed against programs maintained by these countries. As is indicated elsewhere in this report, trade with these five countries is considerably more important to Florida and other U.S. exporters than trade with the African and other countries employing PSI programs.

1/ See Petition for relief under section 301 of the Trade Act of 1974, filed by the International Center of Florida, Inc., et al., dated Sept. 3, 1986, at 3-4.

2/ See, for example, the testimony of Ronald Gerdes, counsel for the Florida exporters, at p. 93 of the transcript of the Commission's hearing of March 2, 1987. When asked if the Florida exporters planned to develop further the allegations set forth in the section 301 petition regarding possible GATT violations, counsel replied--

> Frankly, I don't think we plan to do too much more with the ITC on the questions of the consistency of these programs with the various GATT codes and so forth. My impression was that your investigation into this endeavor was to look at the effect as a practical matter on U.S. exporters.

This chapter describes the various GATT articles and code provisions that are the subject of the allegations and summarizes the allegations and responses thereto. Many of the allegations and responses did not refer to specific GATT articles or codes and can be construed to relate to more than one article or code. In addition, because the codes are based on GATT articles (e.g., the Customs Code is based on article VII), information and argumentation relevant to a GATT article is often also relevant to one of the codes. In the interest of brevity, the arguments and responses have been presented for the most part in conjunction with discussion of what appears to be the most relevant article or code.

Nothing in this section should be construed as to indicate that the Commission has in any way concluded that any of the described actions or activities violate or do not violate any GATT articles or codes.

Article II of GATT.--Article II of GATT sets forth the principle obligations of GATT contracting parties with respect to tariff concessions. Paragraph 1 of article II provides that each contracting party is to accord to the commerce of other contracting parties "treatment no less favourable" than that provided in its schedule of concessions. Article II is reinforced by the most-favored-nation principle set forth in article I and other articles of the GATT. 1/ However, paragraph 2 permits a country to impose, among other things, "fees or other charges commensurate with the cost of services rendered" in conjunction with the importation of an article. Paragraph 3 provides that no contracting party "shall alter its method of determining dutiable value . . . so as to impair the value of any concessions . . . ."

The Florida exporters in their section 301 petition argued that the PSI programs violate provisions in paragraphs 1(b) and 3 of article II that prohibit a contracting party from imposing duties in excess of those set forth in its schedule of concessions or imposing any other duties or charges in excess of those in effect at the time of the Agreement (para. 1(b)); and that "no contracting party shall alter its method of determining dutiable value or of converting currencies so as to impair the value of any of the concessions" contained in its schedule (para. 3). 2/

In subsequent testimony they asserted that countries entering into PSI programs have "taken free trade a step backwards" and have "vitiated" international efforts to rid world trade of official values used to restrict sales of merchandise by artificially increasing duties. 3/ They argued that the PSI programs have produced delays, increased costs, and resulted in artificial price restrictions, discrimination, uncertainty, and risk of non-payment. 4/ They also argued that the PSI programs place importers at

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1/ See J. Jackson, World Trade and the Law of GATT (1969), at 204.

2/ See Petition for relief under section 301, at 12-13. (The Florida exporters' arguments concerning possible GATT violations were contained for the most part in the section 301 petition.)

3/ Testimony of Tom Travis, counsel to the International Center of Florida, Inc., et al. (Florida exporters), at hearing of Mar. 2, 1987, transcript at 8.

4/ Id., at 9.

a disadvantage vis-a-vis domestic producers in the importing country since domestic producers are not subject to the programs. 1/ Exporters estimated that the administrative burden imposed on exporters increases the cost of a product by as much as 15 percent 2/ or $550 to $575 per order. 3/ The Commission estimated the cost to exporters at an average of $526.72 per inspected shipment (see report above).

The exporters expressed particular concern about the ability of the inspection companies to reopen the pricing aspects of individual commercial contracts and in effect change the negotiated price. The inspection companies, they said, are "a law unto themselves . . . .They and they alone decide whether and at what price U.S. exporters are able to ship their goods." 4/

In its response to the section 301 petition, SGS noted that Ecuador, Guatemala, Paraguay, and Venezuela are not contracting parties to the GATT and asserted that the Florida exporters had failed to specify how the PSI programs impaired the value of concessions made by Jamaica, which is a contracting party. 5/ In testimony SGS argued that the inspection process was "not a matter of contract with the inspection companies" over which the parties to a given commercial contract had control, but was "a matter of foreign law . . . . The laws from these countries require the inspection process as a part of the contract from those countries." 6/ SGS further argued that the PSI programs facilitate trade and in particular help U.S.

1/ Id., at 18, 21. The Florida exporters did not allege a violation of GATT article III, which treats with national treatment on internal taxation and regulation. Article III, para. 1 provides as follows--

> The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

2/ Testimony of Tom Matty, Director of Export Activities for the American Association of Exporters and Importers, at the hearing of Mar. 2, 1987, transcript at 27.

3/ Testimony of William C. Winthrop, Manager for Export/Import Service of Rohm & Haas Co., at the hearing of Mar. 2, 1987, transcript at 313.

4/ Testimony of Tom Travis, counsel to the International Center of Florida, Inc., et al. (Florida exporters), at hearing of Mar. 2, 1987, transcript at 8.

5/ Appendix B to the Response of the Republic of Ecuador, Republic of Guatemala, Republic of Paraguay, Republic of Venezuela, and SGS Control Services, Inc., to the Petition for Relief under Section 301 Filed by Various Florida Exporters, filed with USTR Sep. 15, 1986, at 1-2 (hereinafter Appendix B).

6/ Testimony of John Aldock, counsel to SGS, at the hearing of Mar. 2, 1987, transcript at 103.

exporters because they reduce corruption and make more foreign exchange available for exports (e.g., reduce capital flight). 1/

None of the parties addressed, in the context of article II, the practice of some countries, such as Zambia, which is a contracting party to the GATT, of exempting from preshipment inspections imports from certain neighboring countries but requiring inspections on imports from other countries. (For a further discussion of the country contracts, see chapter I of the report above.)

Article VII.--Article VII concerns customs valuation. It established five basic obligations for contracting parties--(1) to recognize the validity of valuation principles in article VII and put them into effect; (2) to review, at the request of another contracting party, the operation of its customs valuation methods; (3) to follow valuation methods within certain "outer limits" (although no one specific method must be followed); (4) when the valuation process requires foreign currencies to be expressed in terms of a contracting party's own currency, to require that the exchange rate used be based on the International Monetary Fund's rules or on comparable recognized exchange rates; and (5) to give its bases and methods for determining value sufficient publicity and to maintain those methods with a reasonable degree of certainty. 2/ The "outer limits" of permissible methods of valuation are set forth principally in paragraph 2 of article VII. Paragraph 2 provides in pertinent part as follows--

(a) The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values.

(b) "Actual value" should be the price at which, at a time and place determined by the legislation of the country of importation, such or like merchandise is sold or offered for sale in the ordinary course of trade under fully competitive conditions. . . .

(c) When the actual value is not ascertainable in accordance with sub-paragraph (b) of this paragraph, the value for customs purposes should be based on the nearest ascertainable equivalent of such value.

In testimony and in their section 301 petition, the Florida exporters argued that the PSI programs violate several paragraphs of article VII. They cited provisions in article VII that provide that customs valuation is to be on the basis of the "actual value" of the imported merchandise, which in turn was to be the "price" at which "such or like merchandise is sold or offered

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1/ See testimony of Deryck Tweedley, President of SGS North America, and Jeffrey Liss, Vice President of SGS Control Services, Inc., at hearing of Mar. 2, 1987, transcript at 112-16. With regard to corruption, Tweedley referred to an unnamed U.S. Chamber of Commerce paper that states that U.S. firms operate at a substantial competitive disadvantage abroad because no other nation has anti-bribery prohibitions similar to those contained in the Foreign Corrupt Practices Act. Transcript at 112.

2/ Jackson, op. cit., at 447-48.

for sale in the ordinary course of trade under fully competitive conditions" (para. 2); and that require that the bases and methods for determining the value of products subject to duties or other charges or restrictions "should be stable and should be given sufficient publicity to enable traders to estimate, with a reasonable degree of certainty, the value for customs purposes" (para. 5). 1/

In testimony the Florida exporters argued that the programs lack transparency and provide exporters with "no clear guidelines which would allow a trader to know, prior to inspection, whether his goods and his price will pass inspection." 2/ Bureau Veritas, they said, "views itself as a private company with no obligation for transparency and no obligation to provide appeal procedures." 3/ "SGS appears to consider itself an agent of the sovereign nation" and its appeal procedures prior to the filing of the section 301 petition were "limited to the concept that if a negative report is issued, the seller may opt to discuss the matter with the principal." 4/

SGS replied that all five of the countries which are the subject of the section 301 petition use the prevailing export market price in determining the value of goods, which is a method that is permissible under GATT and that has long been used by other GATT contracting parties. SGS further stated that all five countries have identified their valuation method and have indicated how the method is consistently applied. 5/ SGS also noted that in the case of countries such as Ghana, Zambia, Nigeria, and Uganda, the IMF has recommended a two-tiered system of exchange with an officially determined rate and an auction determined rate. SGS said that PSI was the only way to monitor compliance with the terms and conditions of the foreign exchange auction. 6/

Intertek also argued that the PSI programs are consistent with article VII. Intertek said that article VII, among other things, specifies that the actual value of imports for customs purposes should be "'the price at which, at a time and place determined by the legislation of the country of importation, such or like merchandise is sold or offered for sale <u>in the ordinary course of trade</u> . . . .'" (GATT, art. VII, 2(b); emphasis added by Intertek.) Intertek argued that this provision (1) refers to the rules of the country of importation regarding time and place of valuation, (2) permits the use of "like" merchandise for valuation, and (3) "most importantly" imposes an ordinary course of trade test, which "mandates by implication the use of comparative prices to test the legitimacy of the claimed value." Intertek said that no country could function without making comparisons of this sort. 7/

1/ Petition for relief under section 301, at 13. See also testimony of Max Turnipseed, Manager for International Affairs of Ethyl Corp. and Chairman of Chemical Manufacturers Assoc. International Trade Committee, at hearing of Mar. 2, 1987, transcript at 342.

2/ Testimony of Tom Travis, counsel to the International Center of Florida, Inc., et al. (Florida exporters), at hearing of Mar. 2, 1987, transcript at 20.

3/ Id., at 19.

4/ Id.

5/ Appendix B, at 2-3. See also the prehearing brief of SGS dated Feb. 18, 1987, at 41.

6/ Testimony of Deryck Tweedley, President of SGS North America, transcript at 111.

7/ Prehearing brief of Intertek Services International, Ltd., at 21-22.

Bureau Veritas stated that regulations in Venezuela, where it is one of three companies licensed by the Venezuelan government to perform inspections on behalf of Venezuelan importers, "clearly state the conditions imposed on importers" regarding the requirements with which they must comply if they are to take advantage of Venezuela's preferential exchange incentives and that Bureau Veritas has likewise clearly set forth its procedures in conducting preshipment inspections. 1/ Bureau Veritas said that it provides a "private service" on behalf of importers and thus has "no obligation" "in legal terms" of "'transparency'", but nevertheless makes its procedures "as straightforward and comprehensible as possible" in order to improve the quality of its services and improve its ability to compete in the market for PSI services. 2/

Article VIII.--Article VIII covers fees and other formalities. It applies to "fees and charges of whatever character" imposed on or connected with importation and exportation other than import and export duties (covered by article II) and taxes, including internal taxes, within the purview of Article III. It provides that such fees "shall be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes" (para. 1(a)). With regard to formalities, article VIII states that the contracting parties "recognize the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements." Paragraph 4 of article VIII states that the article extends to fees, charges, formalities and requirements imposed by governmental authorities in connection with importation and exportation, and lists eight categories of fees and formalities that are specifically covered, including the following five--quantitative restrictions; licensing; exchange control; statistical services; documents, documentation and certification; and analysis and inspection.

The Florida exporters argued that the PSI programs violate article VIII, including provisions that limit fees and other charges on imports "to the approximate cost of services rendered" (para. 1(a)); that call for "minimizing the incidence and complexity of import and export formalities" (para. 1(c)); and that extend the provisions of article VIII to fees and other charges relating to quantitative restrictions, licensing, exchange control, documents, documentation and certification, and analysis and inspection (para. 4). 3/ They stated that the PSI programs "are entirely new additional burdens" 4/ that have resulted in an overall increase in delays of 3 weeks in completing transactions. They said that delays of 60 to 90 days are not uncommon. 5/ Based on responses to questionnaires, the Commission estimated that the inspection process adds an additional 20 days to the period required to clear a transaction (see report above).

SGS stated that three of the countries do not assess fees for the preshipment inspection service, and that the section 301 petitioners failed even to attempt to demonstrate that the fees charged exceed the approximate

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1/ Prehearing memorandum of Bureau Veritas, at 10.

2/ Id., at 8-9, 10-11.

3/ Petition for relief under section 301, at 13-14.

4/ Testimony of Tom Travis, counsel to the International Center of Florida, Inc., et al. (Florida exporters), at hearing of Mar. 2, 1987, transcript at 21.

5/ Id., at 16.

cost of services rendered. SGS stated that Venezuela charged such fees only for imports receiving a subsidized rather than free-market exchange rate. SGS also stated that the GATT contracting parties have recognized in implementing article VIII that additional documentation may be necessary under certain circumstances, that the PSI programs are clearly warranted when the economic and political needs of the countries are assessed, and that the extra documentation required by the five countries was the "minimum necessary" to ensure the success of the PSI programs. 1/ SGS argued that the programs have in fact served to facilitate trade by speeding up the customs clearance of imports in some countries (e.g., Indonesia), by reducing corruption to the benefit of honest exporters, and by making more foreign exchange available for the purchase of imports through a reduction in illegal capital flight (e.g., in Paraguay). 2/

Article X.--Article X contains obligations regarding the publication and procedure of applying trade regulations. It basically requires contracting parties (1) to publish their trade laws and trade agreements, (2) refrain from enforcing a law until it is published, (3) and to administer their trade laws in an "impartial and reasonable manner" and maintain "as soon as practicable" appropriate tribunals for this purpose. 3/

The Florida exporters argued that the PSI programs violate provisions of article X that require that "laws, regulations, judicial decisions and administrative rulings of general application . . . pertaining to the classification or valuation of products for customs purposes . . . or on the transfer of payments therefor, or affecting their sale . . . [or] inspection . . . shall be published promptly" (para. 1). 4/

In its response to the section 301 petition, SGS stated that each of the five countries has published the standards that are applied in the valuation and quantity and quality inspections and that these laws and regulations have been supplemented by SGS's publication of explanatory materials for exporters. 5/ SGS and the other inspection companies made similar arguments regarding the PSI programs in general at the hearing and in their submissions (see discussion above regarding other GATT articles).

1/ Appendix B, at 3-4.

2/ See testimony of Jeffrey Liss, Vice President of SGS Control Services, Inc., at Commission hearing on Mar. 2, 1987, transcript at 114-16. See also SGS posthearing brief at 27.

See also, for example, the prehearing memorandum of Bureau Veritas, at 5, regarding the Venezuelan system:

> The Venezuelan system alleviates pressure on American exporters to participate in schemes in which a purchase and sale contract is the means to defrauding Venezuela of scarce hard currencies. . . . Indeed, the Venezuelan system helps U.S. exporters compete with exporters from other countries which do not have a foreign corrupt practices act. . . ."

3/ Jackson, op. cit., at 461-62.

4/ Petition for relief under section 301, at 14.

5/ Appendix B, at 3-4.

Article XI.--Article XI prohibits restrictions in the form of quotas, import or export licenses, and other measures (other than duties, taxes, or similar charges). The key language is set forth in paragraph 1 as follows--

> No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

Paragraph 2 provides for certain exceptions in the case of (1) export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other essential products; (2) import and export prohibitions "necessary" to the application of standards or regulations for the classification, grading or marketing of commodities in international trade (e.g., relating to the orderly marketing of commodities in relation to storage facilities); and (3) import restrictions on agricultural or fisheries products necessary to the enforcement of certain governmental measures.

The Florida exporters asserted that the PSI programs violate the article XI prohibition of the application of "restrictions other than duties, taxes, or other charges" on the importation of any product originating in the territory of any other contracting party. 1/ In testimony they rejected the proposition that imposing the PSI "system on practically all goods shipped to a given country can be considered the minimum necessary to resolve [the] few situations where fraud is involved." 2/

SGS asserted that the petitioners failed to make any showing that the PSI programs constitute quantitative restrictions, and that petitioners failed to take into account the content of article XVIII of the GATT, which allows a developing country to employ restrictions on the quantity or value of imports to "safeguard its external financial position and to ensure a level of reserves adequate for the implementation of its programme of economic development." SGS cited a provision in article XII similar to that of article XVIII, and cited a provision in article XX that allows contracting parties to adopt measures related to "the prevention of deceptive practices." 3/

Article XIII.--Article XIII provides for nondiscriminatory application of quantitative restrictions. It contains three types of obligations--a most-favored-nation type of obligation requiring that the restrictions be applied against all countries rather than selectively; certain detailed rules governing the manner in which quantitative restrictions are applied (e.g., restrictions should be aimed at a distribution of trade approaching as closely as possible the shares which the various contracting parties might be expected to obtain in the absence of such restrictions); and a series of obligations requiring notification and consultation. 4/

1/ Petition for relief under section 301, at 15.
2/ Testimony of Tom Travis, counsel to the International Center of Florida, Inc., et al. (Florida exporters), at hearing of Mar. 2, 1987, transcript at 21.
3/ Appendix B, at 4-5.
4/ See generally Jackson, op. cit., at 322.

The Florida exporters asserted that the PSI programs violate article XIII, noting that paragraph 1 of that article prohibits a contracting party from applying any "restrictions other than duties, taxes, or other charges" on the importation of any product originating in the territory of any other contracting party. 1/

SGS responded that the petitioners failed to show that the PSI programs constituted a "prohibition or restriction" under article XIII. SGS also asserted that all five Latin American countries the subject of the section 301 petition conduct their PSI programs in the same manner regardless of the identity of the exporting nation or company. 2/

GATT Agreement on Import Licensing Procedures.--The Agreement on Import Licensing Procedures, less formally known as the Code on Import Licensing Procedures, is one of several agreements negotiated during the Tokyo Round in 1979. The agreement represented an attempt to rationalize procedures for administering licensing systems extending back to a GATT code drafted in 1950. The United States and other developed countries have viewed automatic import licensing systems as having trade restrictive effects and have traditionally favored elimination of such systems. Most complaints made by U.S. exporters had focused on the so-called automatic import licensing regimes of LDCs, particularly with regard to the lack of current and reliable information concerning LDC import restrictions. 3/

The purpose of the 1979 agreement was not to abolish such licensing procedures but "to simplify and harmonize" procedures so that such procedures "do not themselves constitute an unnecessary obstacle to international trade." 4/ The Preamble to the Agreement in fact recognized the "usefulness" of automatic licensing for certain purposes and noted that such licensing regimes are important to developing countries.

The Agreement contains five articles. Article 1 defines certain terms and sets forth certain objectives; article 2 covers automatic import licensing; article 3 covers non-automatic import licensing; article 4 provides for consultation and dispute resolution; and article 5 covers such matters as acceptance, reservations, and withdrawal.

The Florida exporters alleged that the foreign practices cited in their section 301 petition represented an "inappropriate use of import licensing which impede and distort the flow of international trade" and were "violative of acceptable practice" as set forth in the Agreement on Import Licensing. 5/ They referred to provisions in article 1 of the agreement requiring that rules and related information concerning procedures for the submission of applications be published promptly; that administrative procedures be applied

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1/ Petition for relief under section 301, at 15.

2/ Appendix B, at 5.

3/ See generally MTN Studies, 6, part 2, Agreements Being Negotiated at the Multilateral Trade Negotiations in Geneva--U.S. International Trade Commission Investigation No. 332-101 . . ., a report prepared for the Committee on Finance of the United States Senate, CP 96-27, at 296 (1979).

4/ See Letter from President Jimmy Carter dated Jan. 4, 1979, to the Speaker of the House of Representatives and the President of the Senate, 44 F.R. 1941 (1979).

5/ Petition for relief under section 301, at 16.

with a view to "preventing trade distortions"; that application forms and procedures be as simple as possible; and that applications not be refused for minor documentation errors.

SGS argued that the PSI programs do not violate the licensing agreement because (1) none of the countries using preshipment inspections have signed the agreement and thus none are bound by it; (2) its preshipment inspection programs are fully consistent with the agreement and conform to GATT requirements, are neutral and are fairly applied, and follow published standards; and (3) even if a country's use of preshipment inspections otherwise violates the agreement, licensing programs adopted in response to the "economic development purposes and financial trade needs" (e.g., protecting hard currency reserves) of the developing countries are expressly exempted from the agreement's requirements. 1/

GATT agreement on valuation for customs purposes.--The agreement on valuation for customs purposes, more formally known as the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, but also known as the Code on Customs Valuation, was also negotiated during the Tokyo Round that concluded in 1979. The agreement evolved from a draft prepared by the European Community and formally offered at the Multilateral Trade Negotiations in Geneva in November 1977. It was prompted in large part by complaints about U.S. valuation practices, including the American selling price base for certain valuations, and by the desire to establish an international valuation system which would be used by all major trading countries. 2/

The agreement is divided into four major parts. Part I sets forth rules on customs valuation, part II provides for administration and dispute resolution, part III concerns special and differential treatment for developing countries, and part IV contains the final provisions relating to acceptance, withdrawal, and similar matters.

Part I sets forth a hierarchical listing of standards for valuing imported goods. The primary and favored standard, set forth in article I, is based on the actual transaction value of the imported goods, determined either at the place of exportation or place of importation (f.o.b. or c.i.f.), as determined by the importing country. If this standard is rejected as a basis for valuation, then the transaction value of identical goods is to be used as the basis of valuation (article 2), with appropriate adjustments to be made for differences in quantities and/or commercial levels. If the value cannot be determined under this second method, the transaction value of similar goods (article 3) would be used (with appropriate adjustments). If the value still cannot be determined, the deductive method set forth in article 5, which is based on the resale price of the imported goods, would be used. If the value cannot be determined under any of the foregoing methods, the computed value method would be used (Article 6). (However, article 4 allows an importer to elect to use the computed method over the deductive method.) Finally, if the value cannot be determined under any of the five listed methods, then the

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1/ Submission entitled "The Conformity of Preshipment Inspection Programs to Applicable International Standards," filed with the Commission by counsel to SGS on Apr. 8, 1987, at 3-4.

2/ See MTN Studies, 6, Part 2, supra, at 3, 8.

value is determined "using reasonable means consistent with the principles and general provisions of this code and article VII of the General Agreement" (article 7).

Article 1 provides that the transaction price of the imported goods (the first method) may be rejected as the basis of appraisement in four circumstances--(1) where the buyer and seller are related (but transaction price can still be used if it can be demonstrated that the relationship did not influence the price or that the transaction value closely approximates one of several other enumerated values); (2) where there are restrictions as to the disposition or use of the goods by the buyer (other than those required by law, limited to a geographic area, or that do not substantially affect the value of the goods); (3) where the sale or price is subject to some condition or consideration for which a value cannot be determined; or (3) where part of the proceeds of the resale of the goods by the buyer will accrue directly or indirectly to the benefit of the seller.

The Florida exporters alleged that the "most easily recognized" violations of the identified practices involve violations of the Customs Valuation Code. 1/ They alleged that the "certainty and fundamental fairness in application" that is the purpose behind the code is "missing" in the present situation. They noted that the code provides that (1) transaction value is to be used unless specific criteria are satisfied; (2) a right of appeal without penalty must be provided; (3) in any disputes over valuation, the importation must be allowed to be completed; and (4) an exporter cannot be required to allow access to his internal records, and even a request to examine such documents can be made only when computed value is used. 2/

Hercules, Inc., also argued that the PSI programs are inconsistent with the Customs Code. The Customs Code, Hercules said, provides that customs authorities are to reach the question of price only when they have a problem with the import invoice and suspect fraud. However, because exporters to PSI countries are required to present pricing information on every transaction under the PSI programs, exporters are considered in effect to have "an illegal shipment from the very beginning." 3/

SGS argued that the PSI programs do not violate the Customs Code because (1) none of the nations that require such inspections have signed the code; and (2) the code would not bar such inspections even for countries that adhered to it, since the overwhelming majority of developing countries use preshipment inspections to help them administer their foreign exchange controls. 4/

Intertek similarly argued that the PSI programs are consistent with the Customs Code. Intertek said that the code, while establishing "transaction value" as the preferential method of customs valuation, provides for the use of other methods of custom valuation when transaction value is not appropriate. If transaction value is not appropriate, the transaction value

1/ Petition for relief under section 301, at 18.
2/ Petition for relief under section 301, at 18-19.
3/ Testimony of Ida Watson, Manager, Foreign Regulations, Hercules, Inc., at Commission hearing on Apr. 14, 1987, transcript at 57-58.
4/ Submission of Apr. 8, 1987, at 4-5.

of identical or similar goods may be used. If this cannot be determined, deductive value or computed value may be used. These valuation methods, Intertek said, "require the type of price comparisons contemplated by the inspection programs." Intertek also cited article 17 of the code as stating that "Nothing in this Agreement shall be construed as restricting or calling into question the rights of customs administrators to satisfy themselves as to the truth or accuracy of any statement, document or declaration presented for customs valuation purposes." 1/

GATT Agreement on Technical Barriers to Trade (Standard Code). The Florida exporters alleged that PSI programs violated provisions of the Standards Code that require that (1) imported products be accorded treatment no less favorable than like products of national origin or like products originating in any other country; (2) public notice and opportunity for comment be given prior to the adoption of a standard for any particular product; (3) standards against which a product will be judged be published; (4) test methods and administrative procedures for imported products be no more complex and no less expeditious than those for like products of national origin or originating in any other country; (5) fees imposed should not discriminate against imported products; (6) the certification system itself should be subject to notice and comment; and (7) parties should ensure that neither the certification system itself nor its application creates unnecessary obstacles to international trade. 2/

SGS replied that even if the code were applicable, there would be no violation because the PSI programs do not create any "unnecessary obstacles" to international trade. In addition, SGS said, the code's preamble recognizes that countries are not to be prevented "from taking measures necessary . . . for the prevention of deceptive practices, subject to the requirement that they are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination . . . ." 3/

GATT Agreement on Trade in Civil Aircraft. The Florida exporters asserted that the PSI programs "clearly violate" provisions of the Civil Air Agreement that require (1) that purchases of such products be free from governmental (or government imposed) restrictions on their ability to select suppliers; and (2) that such products not be subject to other charges in connection with their importation. 4/

SGS asserted that the petition failed to establish that any of the five nations whose practices were the subject of the petition was engaged in the importation of materials covered by the agreement, or that the Florida exporters had standing to seek redress for violations of the agreement, because it was unclear whether they had ever attempted to export civil aircraft products to any of the five countries. SGS noted that the agreement recognizes the different status that less developed nations have in regard to trade in civil aircraft. Finally, SGS argued that the petition failed to demonstrate that any of the five governments had exerted any "unreasonable pressure" on airlines to procure civil aircraft from any particular source. 5/

1/ Prehearing brief of Intertek Services International, Ltd., at 22.
2/ Petition for relief under section 301, at 17.
3/ Appendix B, at 6-7.
4/ Petition for relief under section 301, at 18.
5/ Appendix B, at 7-8.

Federal Regulation of Exports and Imports

Export programs

The vast majority of goods and products subject to export controls fall under the purview of the provisions of the Export Administration Act of 1979 (EAA). 1/ The EAA and its implementing regulations 2/ principally regulate the export of controlled commodities that have both civilian and military application and are protected for reasons of national security, foreign policy, or short supply. The act is administered by the Office of Export Administration (OEA) and enforced by the Office of Export Enforcement, both of which are within the Department of Commerce.

Under the export administration program, exports of all commodities and certain technical data are prohibited unless and until a general license, a validated license, or other authorization has been granted by OEA. As a matter of practice most products are exported under general licenses that do not require applications or issuance of permitting documents. Exporters using general licenses are obligated to file a Shipper's Export Declaration, which identifies the general license being used, the commodity being shipped, and other details of the transaction needed for statistical data reporting.

For products not eligible to be exported under a general license, individual validated licenses must be obtained from OEA. In deciding whether or not to issue a validated license, OEA takes into account the country of importation (since the range of products permitted to be exported under license depends to a large extent on the intended country of importation) and whether a product is generically subject to export restriction or prohibition. Most articles subject to export restrictions are specified in the Commodity Control List maintained by OEA. 3/

1/ Public Law 96-72, 93 Stat. 503 (50 U.S.C. App. 2401 et seq). Several other laws include provisions regulating the exportation of individual commodities and products. The most notable include the Arms Export Control Act (munitions, defense articles, and services) administered by the Departments of State and Treasury, the Controlled Substances Import and Export Act (narcotics) administered by the Drug Enforcement Adminstration of the Department of Justice, the Atomic Energy Act of 1954 (nuclear materials and equipment) administered by the Nuclear Regulatory Commission and the Department of Energy, the Natural Gas Act of 1938 (natural gas) and the Federal Power Act (electricity) administered by the Department of Energy, the United States Grains Standards Act (all grains) and the Tobacco Seed and Plant Exportation Act of June 5, 1940 (tobacco seeds and plants), administered by the Department of Agriculture, the Endangered Species Act of 1973 (endangered fish and wildlife), and the Act for Protection of Bald and Golden Eagles (bald and golden eagles) administered by the U.S. Fish and Wildlife Service of the Department of the Interior.

2/ Export Administration Regulations, Pts. 368 to 399, inclusive, of Title 15 of the Code of Federal Regulations.

3/ Pt. 399 of Title 15 of the Code of Federal Regulations.

The authority to take appropriate action to ensure observance of the provisions of the Export Administration Regulations and licenses issued under those regulations has been delegated to the U.S. Customs Service. 1/ Customs officers may examine any commodities, or technical data declared for export, in order to verify the particulars of the transaction as set forth in the Shipper's Export Declaration. Such examinations, which may include the taking of samples, are made at the place of lading or customs station. Customs officers can require exporters to produce all relevant documents (e.g., invoices, orders, letters of credit, inspection reports, packing lists, shipping documents, and correspondence) for inspection and copying and may prohibit lading or order seizure of the goods when there is reasonable cause to believe that the export is contrary to the Export Administration Regulations.

Import programs

As a principal border enforcement agency, the U.S. Customs Service assists in the administration and enforcement of some 400 provisions of law. In addition to administering the Tariff Act of 1930, as amended, Customs is responsible for enforcing various provisions of laws aimed at protecting domestic agriculture, business, and public health. They include statutes relating to motor-vehicle safety and emission control standards, radiation and radioactive material standards, illegal narcotics and pornography, animal and plant quarantine requirements, and food and hazardous substance prohibitions. 2/ In carrying out these responsibilities the U.S. Customs Service may inspect any import to identify contraband, or otherwise prohibited or restricted goods or merchandise.

1/ The U.S. Customs Service is generally responsible for assuring compliance with other export control statutes and regulations and has similar authority to conduct inspections and seize goods as part of its enforcement practices. An exception arises under the U.S. Grain Standards Act, which requires that grain exports be graded and weighed by inspectors from the Federal Grain Inspection Service of the Department of Agriculture, or their authorized state inspectors.

2/ Specific classes of prohibited or restricted merchandise include agricultural and vegetable seeds, alcoholic beverages, domestic and wild animals and wild birds, arms and munitions, caustic or corrosive substances, controlled substances including narcotics, goods made by convicts, or forced labor, counterfeit goods and piratical copies, cream, drugs, films, foods, fungicides, insecticides and pesticides, fur-seal and otter skins, immoral articles, seditious or treasonable literature, lottery matter, matches, meat and meat food products, motor vehicles, nuclear materials, plants and plant products, pre-Columbian artifacts, securities, serums, switchblade knives, tea, toxins, and articles subject to absolute quantitative quotas.

All goods, except for "intangibles" 1/ and prohibited articles, intended to be imported into the customs territory of the United States 2/ are subject to duty unless specifically exempted. Consequently, all goods are subject to inspection and examination (including sampling) by customs officers in order to determine their proper tariff classifications, rates of duty, and value. Customs can require submission of any information deemed necessary to determine applicable rates of duty and appraised values of the imported merchandise.

Customs generally examines imported merchandise at the time of importation with four levels of intensity:

1. General examinations consist of manifest and/or document reviews.

2. Regulatory compliance inspections consist of inspection of one or more items within a shipment when it can be reasonaby assumed that the review of a minimal amount of merchandise will represent the balance of the importation.

3. Classification and value examinations consist of thorough physical examinations for classification and/or value purposes in response to specific instructions from import specialists.

4. Enforcement examinations are very detailed and involve partial to total examination of a shipment because of an identified risk of narcotics, fraud, or other prohibited or restricted importations.

In most instances, goods are released from customs' custody after inspection. Verification of an importers' entered tariff classification, rate of duty and value is performed during subsequent review of entry papers and accompanying documentation. Customs' review of tariff classification and entered value tends to be a two-step process. The classification is first verified and then the value is confirmed or adjusted. A large majority of customs entries are processed without change to the importer's classification or entered value.

Tariff classification of imported goods is necessary to determine the rate of duty to be applied to the appraised value in order to compute duties to be collected. Generally, tariff classifications of imported goods can be determined by reference to descriptions contained in commercial documents

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1/ Intangibles include (a) corpses, together with their coffins and accompanying flowers, (b) currency (metal or paper) in current circulation in any country and imported for monetary purposes, (c) electricity, (d) securities and similar evidences of value, (e) records, diagrams, and other data with regard to any business, engineering, or exploration operation whether or not on paper, cards, photographs, blueprints, tapes, or other media, (f) articles returned from space within the purview of section 484a of the Tariff Act of 1930, and (g) vessels which are not "yachts or pleasure boats" within the purview of subpt. D, pt. 6, of schedule 6 of the Tariff Schedules of the United States (General Headnote 5 to the Tariff Schedules of the United States).

2/ The "customs territory of the United States" includes only the States, the District of Columbia, and Puerto Rico (General Headnote 2 to the Tariff Schedules of the United States).

relevant to a transaction or by examination of a sample from the shipment. In some cases, tariff classification is dependent on unit values of the goods (e.g., shoes valued under $3.00 per pair, and shoes valued at $3.00 but less than $6.50 per pair) and consequently must be appraised before the proper tariff classification can be ascertained.

There are four kinds of duty rates: free rates (whether conditional or unconditional), specific rates (e.g., $1.00 each, or $2.50 per ton), ad valorem rates (i.e., a specified percentage of the value) and compound rates (e.g., $1.00 per pair plus 20 percent of the value). When a duty rate has been determined, it is applied to the quantity or value as appropriate. Ordinarily, verification of quantity is made during inspections by the U.S. Customs prior to release of the goods.

Valuation of imported goods is normally accomplished after being released from Customs' custody. Imported merchandise is appraised under a uniform set of regulations based on the GATT agreement on customs valuation to which the United States is a signatory. Under the Gatt agreement and customs' regulations, the transaction value, if containing all elements of value (e.g., cost of materials and labor, general expenses, and profit) is normally accepted as the proper customs value. Transaction value is based on the price agreed to by the parties for the goods packed ready for shipment from the port of exportation (f.o.b. value). Freight and insurance costs (c&f or c.i.f charges) necessary to transport the goods from the port of export to the port of import are not considered to be part of the transaction value. If elements of value are determined to be missing (e.g, failure to include an amount for profit in a transaction between related companies), then the appraised value for customs' purposes may be other than the transaction value. In such circumstances, it is common for U.S. Customs to require additional documentation and delay final liquidation of duties due.

APPENDIX A

GLOSSARY

GLOSSARY

Ad Valorem Tariff

A tariff calculated as a percentage of the value of goods cleared through customs, e.g., 15 percent ad valorem means 15 percent of the value.

Balance of Payments

A tabulation of a country's credit and debit transactions with other countries and international institutions. These transactions are divided into two broad groups: current account and capital account. The current account includes exports and imports of goods, services (including investment income), and unilateral transfers. The capital account includes financial flows related to international direct investment, investment in government and private securities, international bank transactions, and changes in official gold holdings and foreign-exchange reserves.

Buying Agent

Any person or company engaged by the buyer to procure goods and services for an agreed fee. A buying agent does not take title to goods.

C.i.f.

An abbreviation used in some international sales contracts, when the selling price includes all "costs, insurance and freight" for the goods sold ("charge in full"), meaning that the seller arranges and pays for all relevant expenses involved in shipping goods from their point of exportation to a given point of importation. In import statistics, "c.i.f. value" means that all figures are calculated on this basis, regardless of the nature of individual transactions.

Clean Report of Findings

A report issued by the inspection company where the preshipment inspection yields satisfactory results in all aspects of the inspection (physical inspection, price comparison, and review of final documents).

Devaluation

The lowering of the value of a national currency in terms of the currency of another nation. Devaluation tends to reduce domestic demand for imports in a country by raising their prices in terms of the devalued currency and to raise foreign demand for the country's exports by reducing their prices in terms of foreign currencies. Devaluation can therefore help to correct a balance-of-payments deficit and sometimes provide a short-term basis for economic adjustment of a national economy.

Developed countries

A term used to distinguish the more industrialized nations--including all OECD member countries as well as the U.S.S.R. and most of the socialist countries of Eastern Europe--from "developing" or less developed-countries. The developed countries are sometimes collectively designated as the "North," because most of them are in the Northern Hemisphere.

Developing countries

A broad range of countries that generally lack a high degree of industrialization, infrastructure and other capital investment, sophisticated technology, widespread literacy, and advanced living standards among their populations as a whole. The developing countries are sometimes collectively designated as the "South," because a large number of them are in the Southern Hemisphere. All of the countries of Africa (except South Africa), Asia, and Oceania (except Australia, Japan, and New Zealand), Latin America, and the Middle East are generally considered "developing countries," as are a few European countries (Cyprus, Malta, Turkey, and Yugoslavia, for example). Some experts differentiate four subcategories of developing countries as having different economic needs and interests: (1) a few relatively wealthy OPEC countries sometimes referred to as oil exporting developing countries, share a particular interest in a financially sound international economy and open capital markets; (2) newly industralizing Countries (NIC's) have a growing stake in an open international trading system; (3) a number of middle-income countries--principally commodity exporters--have shown a particular interest in commodity stabilization schemes; and (4) more than 30 very poor countries ("least developed countries") are predominantly agricultural, have sharply limited development prospects in the near future, and tend to be heavily dependent on official development assistance.

Exchange Controls

The rationing of foreign currencies, bank drafts, and other instruments for settling international financial obligations by countries seeking to ameliorate acute balance-of-payments difficulties. When such measures are imposed, importers must apply for prior authorization from the government to obtain the foreign currency required to bring in designated amounts and types of goods. Since such measures have the effect of restricting imports, they are considered nontariff barriers to trade.

Exchange Rate

The price (or rate) at which one currency is exchanged for another currency, for gold, or for Special Drawing Rights (SDR's).

Export Broker

Any person or company that makes available a source of supply to an importer for an agreed fee. A broker does not take title to goods.

F.a.s.

The term "Free Alongside Ship," in international trade, refers to the point of embarkation from which the vessel or plane selected by the buyer will transport the goods. Under this system, the seller is obligated to pay the costs and assume all risks for transporting the goods from his place of business to the f.a.s. point. In trade statistics, "f.a.s. value" means that the import or export figures are calculated on this basis, regardless of the nature of individual transactions reflected in the statistics.

F.o.b.

An abbreviation used in some international sales contracts, when imports are valued at a designated point, as agreed between buyer and seller, that is considered "free on board." In such contracts, the seller is obligated to have the goods packaged and ready for shipment from the agreed point, whether his own place of business, or some intermediate point, and the buyer normally assumes the burden of all inland transportation costs and risks in the exporting country, as well as all subsequent transportation costs, including the cost of loading the merchandise on the vessel. However, if the contract stipulates "f.o.b. vessel" the seller bears all transportation costs to the vessel named by the buyer, as well as the costs of loading the goods on to that vessel. The same principle applies to the abbreviations "f.o.r." ("free on rail") and "f.o.t." ("free on truck").

Least developed developing countries (LDDC's)

Some 36 of the world's poorest countries, considered by the United Nations to be the least developed of the less developed countries. Most of them are small in terms of area and population, and some are landlocked, or small island countries. They are generally characterized by low per capita incomes, literacy levels, and medical standards; subsistence agriculture; and a lack of exploitable minerals and competitive industries. Many suffer from aridity, floods, hurricanes, and excessive animal and plant pests. These countries have little prospect of rapid economic development in the foreseeable future and are likely to remain heavily dependent upon official development assistance for many years. Most are in Africa, but a few, such as Bangladesh, Afghanistan, Laos, and Nepal, are in Asia. Haiti is the only country in the Western Hemisphere classified by the United Nations as "least developed."

Newly industrializing countries (NICs)

Relatively advanced developing countries whose industrial production and exports have grown rapidly in recent years. Examples include Brazil, Hong Kong, Korea, Mexico, Singapore, and Taiwan.

Nonmarket economy

A national economy or a country in which the government seeks to determine economic activity largely through a mechanism of central planning, as in the U.S.S.R., in contrast to a market economy that depends heavily upon market forces to allocate productive resources. In a "nonmarket" economy, production targets, prices, costs, investment allocations, raw materials, labor, international trade, and most other economic aggregates are manipulated within a national economic plan drawn up by a central planning authority, and hence the public sector makes the major decisions affecting demand and supply within the national economy.

Nonnegotiable Report of Findings

A report issued by the inspection company whenever the preshipment inspection reveals uncorrected discrepancies, or other unsatisfactory elements, in any or all aspects of the inspection (physical inspection, price comparison, and review of final documents).

Preshipment inspection

Examination, on behalf of a foreign government or other contracting principal, of the quality and quantity of goods exported to them and evaluation of whether or not the transaction value corresponds within acceptable limits to the export market price generally prevailing in the country of origin/supply, as determined by the inspection company.

Special drawing rights (SDR's)

Created in 1969 by the International Monetary Fund (IMF) as a supplemental international monetary reserve asset. SDR's are available to governments through the IMF and may be used in transactions between the IMF and member governments. IMF member countries have agreed to regard SDR's as complementary to gold and reserve currencies in settling their international accounts. The unit value of an SDR reflects the foreign-exchange value of a "basket" of currencies of several major trading countries (the U.S. dollar, the German mark, the French franc, the Japanese yen, and the British pound). The SDR has become the unit of account used by the IMF and several national currencies are pegged to it. Some commercial banks accept deposits denominated in SDR's (although they are unofficial and not the same units transacted among governments and the fund).

Section 301 (of the Trade Act of 1974)

Provision of U.S. law that enables the President to withdraw concessions or restrict imports from countries that discriminate against U.S. exports, subsidize their own exports to the United States, or engage in other unjustifiable or unreasonable practices that burden or discriminate against U.S. trade.

Services

Economic activities--such as transportation, banking , insurance, tourism, space launching telecommunications, advertising, entertainment, data processing, consulting, and the licensing of intellectual property--that are usually of an intangible character and often consumed as they are produced. Service industries have become increasingly important since the 1920's. Services now account for more than two-thirds of the economic activity of the United States and about 25 percent of world trade. Traditional GATT rules have not applied to trade in services.

Tariff

A duty (or tax) levied upon goods transported from one customs area to another. Tariffs raise the prices of imported goods, thus making them less competitive within the market of the importing country. After seven "rounds" of GATT trade negotiations that focused heavily on tariff reductions, tariffs are less important measures of protection than they used to be. The term "tariff" often refers to a comprehensive list or "schedule" of merchandise with the rate of duty to be paid to the government for importing products listed.

Transfer pricing

The prices established for transactions between units of the same transnational corporation. Such transactions cover not only goods--whether finished, intermediate, or new materials--but also services, including royalties, management and licensing fees, and interest on loans.

Turnkey Contract

A compact under which the contractor assumes responsibility to the client for constructing productive installations and ensuring that they operate effectively before turning them over to the client. By centering responsibility for the contributions of all participants in the project in his own hands, the contractor is often able to arrange more favorable financing terms than the client could. The responsibility of the contractor ends when he hands the completed installation over to the client.

APPENDIX B

REQUEST FROM U.S. TRADE REPRESENTATIVE

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

DOCKET NUMBER

1355

Office of the Secretary
Int'l Trade Commission

B-2

October 20, 1986

The Honorable Susan W. Liebeler
Chairman
U.S. International Trade Commission
701 E Street, NW.
Washington, D.C. 20436

Dear Susan:

Recently, we received a Section 301 petition concerning certain preshipment inspection practices of private firms acting on behalf of several foreign governments. These firms operate in the United States and other countries, inspecting shipments for export to client countries.

Preshipment inspections include evaluation of the quantity and quality of the goods exported and assessment of whether the contract price is "reasonable." Exporters indicate that these inspections have delayed shipments and involved unreasonable requests for business proprietary information or unnecessarily extensive and detailed pricing information.

Several countries have recently contracted for this service and the practice is spreading rapidly. Because of the relatively recent increase in the number of countries requiring preshipment inspections, detailed information on the effect of these practices and most specifically interference in privately negotiated pricing terms in contracts is not available.

Although a Section 301 investigation is premature at this time, preshipment inspection practices present serious problems that I intend to address through an action plan of domestic and international efforts. Therefore, pursuant to Section 303(a) of the Trade and Tariff Act of 1984, 19 U.S.C. 2241(c) note, I request that the U.S. International Trade Commission provide information on preshipment inspection programs and the effect of these programs on U.S. commerce to me as expeditiously as possible. Further, at the direction of the President the Commission is requested to conduct its study under Section 332 of the Tariff Act of 1930, 19 U.S.C. 1332. In addition, I believe that a public hearing in Florida in the context of this Section 332 investigation appears warranted. This information will play a significant role in our plans to address this issue both in the United States and in international fora.

I appreciate your cooperation in this matter and my staff is available to consult with you regarding the details of this request.

Sincerely,

Clayton Yeutter

APPENDIX C

FEDERAL REGISTER NOTICES

[332-242]

Preshipment Inspection Programs and Their Effect on U.S. Commerce

AGENCY: Unites States International Trade Commission.

ACTION: Institution of investigation.

EFFECTIVE DATE: December 16, 1986.

FOR FURTHER INFORMATION CONTACT: Ms. Constance Hamilton, Office of Economics, U.S. International Trade Commission, Washington, DC, 20436, telephone 202-523-1179.

Background and Scope of Investigation

The Commission instituted the investigation, No. 332-242, on December 16, 1986, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) following receipt on October 24, 1986 of a request therefor from the U.S. Trade Representative. USTR requested the investigation at the direction of the President pursuant to section 332 of the Tariff Act and section 303(a) of the Trade and Tariff Act of 1984 (19 U.S.C. 2241(c) note).

USTR stated that it had received a petition with respect to such practices under section 301 of the Trade Act of 1974 (19 U.S.C. 2411) but that institution of a section 301 investigation was premature at this time. USTR stated that exporters had indicated that these inspections have delayed shipments and involved unreasonable requests for business proprietary information or unnecessarily extensive and detailed pricing information. USTR stated that several countries have contracted for the service and that the practice is spreading rapidly.

USTR stated that a public hearing in Florida appeared warranted. USTR asked that the Commission report the results of its investigation as expeditiously as possible.

Public Hearing

The Commission will hold a public hearing in connection with the investigation in Miami, Florida at a time and place to be announced. All interested persons shall have the right to appear by counsel or in person, to present information and to be heard. Procedures concerning requests to appear will be described in the notice announcing the time and place of the hearing.

Written Submissions

Interested persons are invited to submit written statements concerning the investigation. Written statements should be received by the close of business on March 20, 1987. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary, United States International Trade Commission, 701 E Street, NW., Washington, DC 20436. Hearing-impaired individuals are advised that information on this matter can be obtained by contacting our TDD terminal on (202) 724-0002.

By order of the Commission.

Kenneth R. Mason,

Secretary.

December 22, 1986.

[FR Doc. 86-29314 Filed 12-30-86; 8:45 am]

BILLING CODE 7020-02-M

[Investigation No. 332-242]

Preshipment Inspection Programs and Their Effect on U.S. Commerce

AGENCY: U.S. International Trade Commission.

ACTION: Notice of public hearing.

EFFECTIVE DATE: March 2 and 3, 1987.

FOR FURTHER INFORMATION CONTACT: Ms. Constance Hamilton, Office of Economics, U.S. International Trade Commission, Washington, DC 20436, telephone 202-523-1179.

Background: The Commission instituted the investigation, No. 332-242, on December 16, 1986, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) following receipt on October 24, 1986 of a request therefor from the U.S. Trade Representative. Notice of the investigation was presented in the Federal Register December 31, 1986.

Public Hearing: The Commission will hold a public hearing in connection with the investigation in Miami, Florida at the Omni Hotel and Convention Center, Biscayne Blvd. at 16th Street, beginning at 9:30 a.m. on March 2, 1987. All interested persons shall have the right to appear by counsel or in person, to present information and to be heard. The deadline for filing pre-hearing briefs and requests to testify is February 12, 1987. Interested persons not wishing to testify are invited to submit written statements concerning the investigation. All written statements, including post-hearing briefs, should be received by the close of business on March 30, 1987. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary at the Commission's office in Washington, DC.

Issued: January 15, 1986.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 87-1393 Filed 1-21-87; 8:45 am]

BILLING CODE 7020-02-M

INTERNATIONAL TRADE COMMISSION

Agency Information Collection Activities Under OMB Review

AGENCY: International Trade Commission.

ACTION: In accordance with the provisions of the Paperwork Reduction Act of 1980 (44 U.S.C. Chapter 35), the Commission has submitted a proposal for the collection of information to the Office of Management and Budget (OMB) for review.

Purpose of Information Collected: The proposed collection is for use by the Commission in connection with investigation No. 332–242, Preshipment Inspection Programs and their Effects on U.S. Commerce, instituted under the authority of section 332 of the Tariff Act of 1930 (19 U.S.C. 1332).

Summary of Proposal.

(1) Number of forms submitted: one
(2) Title of form: Preshipment Inspection Programs: Questionnaire for U.S. Producers and Exporters
(3) Type of request: New
(4) Frequency of use: Nonrecurring
(5) Description of respondents: Firms that export to certain countries requiring preshipment inspections
(6) Estimated number of respondents: 816
(7) Estimated total number of hours to complete the forms: 16,320

(8) Information obtained from the form that qualifies as confidential business information will be so treated by the Commission and not disclosed in a manner that would reveal the individual operations of a firm. The Commission may be required to disclose to the USTR all or part of the responses to this questionnaire. The USTR will maintain confidentiality of such information consistent with its regulations.

Additional Information or Comment: Copies of the proposed form and supporting documents may be obtained from Constance Hamilton, (USITC tel. no. 202–523–1179). Comments about the proposal should be directed to the Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Washington, DC, 20503, Attention: Francine Picoult, Desk Officer for U.S. International Trade Commission. Any comments should be specific, indicating which part of the questionnaire or study plan is objectionable, describing the problem in detail, and including specific suggested revisions or language changes.

Submission of Comments: Comments should be submitted to OMB within two weeks of the date of this notice appears in the Federal Register. If you are unable to submit them promptly you should advise OMB within the two week period of your intent to comment on the proposal. Ms. Picoult's telephone number is 202–395–7340. Copies of any comments should be provided to Charles Ervin (United States International Trade Commission, 701 E Street, NW., Washington, DC. 20436).

Hearing impaired individuals are advised that information on this matter can be obtained by contacting our TDD terminal on (202) 724–0002.

Issued: January 13, 1986.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 87–1387 Filed 1–21–87; 8:45 am]

BILLING CODE 7020–02–M

9712 Federal Register / Vol. 52, No. 58 / Thursday, March 26, 1987 / Notices

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-242]

Preshipment Inspection Programs and Their Effect on U.S. Commerce; Public Hearing

AGENCY: United States International Trade Commission.

ACTION: Notice of Public Hearing.

DATE: April 14, 1987.

FOR FURTHER INFORMATION CONTACT: Ms. Constance Hamilton, Office of Economics, U.S. International Trade Commission, Washington, DC, 20436, telephone 202-523-1179.

Background

The Commission instituted the investigation, No. 332-242, on December 16, 1986, under sectin 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) following receipt on October 24, 1986 of a request therefor from the U.S. Trade Representative. Notice of the investigation was presented in the Federal Register December 31, 1986.

Public Hearing

The Commission will hold a public hearing in connection with the investigation in Washington, DC at the U.S. International Trade Commission, 701 E Street, NW., Room 331, beginning at 9:30 a.m. on April 14, 1987. All interested persons shall have the right to appear by counsel or in person, to present information and to be heard. The deadline for filing pre-hearing briefs and requests to testify is April 7, 1987. Requests to tetify should be made to Ms. Kay Mills, (202) 523-0430. Interested persons not wishing to testify are invited to submit written statements concerning the investigation. All written statements, including post-hearing briefs, should be received by the close of business on April 21, 1987. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *rules of practice and procedure* (19 CFC 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary at the Commission's office in Washington, DC.

Issued: March 23, 1987.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 87-6581 Filed 3-25-87; 8:45 am]

BILLING CODE 7020-02-M

APPENDIX D

WITNESSES APPEARING AT PUBLIC HEARINGS

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Preshipment Inspection Programs and Their Effect on U.S. Commerce

Inv. No. : 332-242

Date and time: March 2, 1987 - 9:30 a.m.

Sessions were held at the Omni Hotel and Convention Center, Biscayne Boulevard at 16th Street, in Miami, Florida.

IN OPPOSITION TO PRESHIPMENT INSPECTION PROGRAMS:

Sandler & Travis, P.A.--Counsel
Washington, D.C.
on behalf of

The International Center of Florida, the Florida Exporters and Importers Association, the Florida Customs Brokers and Forwarders Association, the Florida District Export Council, and the American Association of Exporters and Importers

March Davenport, Executive Director, International Center of Florida

James Brennan, President, Florida Exporters and Importers Association

Alberto Martinez, Member, Florida Exporters and Importers Association

Charles McKay, Chairman, Florida District Export Council

Alberto Marino, President, Florida Customs Brokers and Forwarders Association

Thomas Matty, Director of Export Activities, American Association of Exporters and Importers

Thomas G. Travis)--OF COUNSEL
Ronald W. Gerdes)

- more -

IN SUPPORT OF PRESHIPMENT INSPECTION PROGRAMS:

Shea & Gardner--Counsel
Washington, D.C.
on behalf of

SGS, Control Services, Inc.

Deryck H. Tweedley, President, SGS North America

Jeffrey Liss, Vice President in charge of SGS, Miami Center for Latin American Programs

John D. Aldock)
Franklin D. Kramer)--OF COUNSEL
Michael P. Healy)

PUBLIC OFFICIALS:

Kenya:

Duncan Ndegwa, former Governor of the Central Bank of Kenya

W. Muriithi, former Director Exchange Control of the Central Bank of Kenya

Tanzania:

Robert Makani, former Deputy Governor of the Bank of Tanzania

Ghana:

Jose A. Perez, The Ministry of Finance

Liberia:

Henry Jones, Deputy Minister for Trade

Nathaniel Patray, Deputy Governor, National Bank of Liberia

Suriname:

H. G. Defares, former Ambassador Plenipotentiary

PUBLIC OFFICIALS (continued)

Guatemala:

Jose A. Perez, The Ministry of Finance

Carlos Najer, The Central Bank of Guatemala

Jorge Tello, The Central Bank of Guatemala

Venezuela:

Luis E. Berrizbeitia, Minister Counselor, Petroleum and Economic Affairs, Embassy of Venezuela

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Massachusetts Institute of Technology

Professor R. Rudiger Dornbusch, Ford International, Professor Economics

IN OPPOSITION TO PRESHIPMENT INSPECTION PROGRAMS:

Union Carbide Corporation, Danbury, Connecticut

Robert Shellman, Manager, Export Operations

Celanese Corporation, New York, N.Y.

F. A. Rodriguez, Manager-Export Administration/Traffic

Chemical Manufacturers Association, Washington, D.C.

K. James O'Connor, Jr., Legislative Representative

Max Turnipseed, Manager, International Trade Affairs, Ethyl Corporation

Rohm & Haas Company, Philadelphia, Pennsylvania

William C. Winthrop, Manager of Export/Import Services

Association of Inspection Companies and Laboratories,
La Porte, Texas

Ruth Wallace, Government Liaison

James Glynn, Commodity's Control Corporation

Owen Fuchs, Alpha Omega Laboratories, Inc.

Edward Murray, Chemical Coast, Inc.

National Council for International Trade Documentation
(NCITD), Wilmington, Delaware

Eugene A. Hemley, Executive Director

Overseas National Purchasing Corporation, Miami, Florida

Gerald P. Querra, Director

Essex Exports

Emanuel Ardois

Danzas Tuya International Corporation, Miami, Florida

Nelly Yunta, Traffic Manager

Econocaribe Consolidators, Inc., Miami, Florida

Ed Lopez, Traffic Manager

Super Valu Export Ltd., Miami, Florida

Enrique Carrillo, Manager

F.M.C. Corporation, Philadelphia, Pennsylvania

Joseph Pattison, International Councel

ORSO Superior Enterprises, Corporation, Key Biscayne, Florida

Jim Ortiz, President

- more -

IN SUPPORT OF PRESHIPMENT INSPECTION PROGRAMS:

Hughes Hubbard & Reed--Counsel
New York, N.Y.
on behalf of

Bureau Veritas

Roy McBride, Head, Preshipment Inspection Division (USA)

Steven A. Hammond--OF COUNSEL

Ross & Hardies--Counsel
Washington, D.C.
on behalf of

Intertek Services International, Ltd., Fairfax, Virginia

Admiral Donald Primeau, President, Intertek Services International, Ltd.

Richard Mace, Intertek International Services, Ltd.

Julia Evans, Intertek International Services, Ltd.

Stephen M. Creskoff--OF COUNSEL

Florida International Forwarders, Miami, Florida

Ralph L. Gazitua

Hufco/Roy M. Huffington, Inc., Houston, Texas

Raymond Lovorn

Courtaulds N.A. Inc., Mobile, Alabama

Dick Coats

Bruno Consulting Company, Miami, Florida

Dr. Marilyn Bruno, President

- more -

Federal Mogul, Jacksonville, Florida

Linda Watkin

Daniel F. Young, Inc., New York, New York

Jeffrey Craven

Klumb Lumber Company, Ft. Lauderdale, Florida

Wilma Weidman

Singer Kikko Latin America Co. Ltd., Miami, Florida

Sergio A. Betancourt

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : Preshipment Inspection Programs and Their Effect on U.S. Commerce

Inv. No. : 332-242

Date and time: April 14, 1987 - 9:30 a.m.

Sessions were held in the Hearing Room of the United States International Trade Commission, 701 E Street, N.W., in Washington.

Congressional appearance:

Michael Luis, Director, Export Task Force, U.S. House of Representatives

WITNESS AND ORGANIZATION:

In opposition to preshipment inspection programs:

BFGoodrich Company, Cleveland, Ohio

Armin F. Vaihinger Jr., Marketing Manager, International Department of the Geon Vinyl

Stauffer Chemiçal Company, International Division, Westport, Connecticut

John T. Whitlock, Supervisor, International Central Services

Christine R. Campel, Regional Sales Manager, Latin America

National Export Traffic League Inc., New York, N.Y.

Patrick Gill, Esq., Regulatory Affairs Chairman (Export-Import)

- more -

WITNESS AND ORGANIZATION:

In opposition to preshipment inspection programs (continued):

Pharmaceutical Manufacturers Association, Washington, D.C.

Anthony Barone of the Warner-Lambert Company

Paul Belford, Assistant Vice President-International

Conan Grames, Pacific Counsel-Bristol Myers

W. Bradford Gary, Corporate Director, Government Relations, Warner-Lambert Company

Berger & Stingut--Counsel
Washington, D.C.
on behalf of

New York Chamber of Commerce and Industry, New York, N.Y.

John Saunders, Manager, International Traffic

Stephen H. France--OF COUNSEL

The National Industrial Transportation League, Washington, D.C.

Peter J. Gatti, Assistant to the Executive Vice President

Hercules Incorporated, Wilmington, Delaware

Ida Watson, Manager, Foreign Regulations, Marketing Center/Export Services

Ahern International Sales Corporation, New Canaan, Connecticut

Richard Ahern, President

WITNESS AND ORGANIZATION:

In opposition to preshipment inspection programs (continued)

Johnson & Johnson International, New Brunswick, New Jersey

Axel O. Velden, Director, Export Division

Ethyl Corporation, Washington, D.C.

Max Turnipseed, Manager, International Trade Affairs

American Paper Institute, Inc., New York, N.Y.

Irene W. Meister, Vice President, International

Sandler & Travis, P.A.--Counsel Washington, D.C. on behalf of

The International Center of Florida, the Florida Exporters and Importers Association, the Florida Customs Brokers and Forwarders Association and the Florida District Export Council

Ronald W. Gerdes--OF COUNSEL

In support of preshipment inspection programs

Shea & Gardner--Counsel Washington, D.C. on behalf of

SGS Control Services, Inc. ("SGS")

Robert B. Burgess, President, CISS Division

Jeffrey Liss, Vice President, SGS Control Svcs.

John D. Aldock)
Franklin D. Kramer)--OF COUNSEL
Michael P. Healy)

- more -

WITNESS AND ORGANIZATION:

In support of preshipment inspection programs (continued):

Ross & Hardies--Counsel
Washington, D.C.
on behalf of

Intertek Services International, Ltd., of Fairfax, Virginia

Admiral Don G. Primeau, President, Intertek Services International, Ltd.

Julia Evans, Pricing Analyst Team Leader, Intertek Services International, Ltd.

Stephen M. Creskoff--OF COUNSEL

APPENDIX E

SAMPLE METHODOLOGY AND SURVEY DESIGN

Sampling Procedures Used for Preshipment Inspection Study

A universe of exporters to countries (see list below) requiring preshipment inspection (PSI) was developed relying on information obtained from the Journal of Commerce's Piers Export Database. 1/ This data is a compilation of information extracted from bills of lading at the ports. The data available is not all inclusive, since information is collected only at the major Customs ports. Also, to economize on costs, data were requested for only 1 week during each requested month. The actual week for which data were to be provided was to alternate or cycle through weeks 1 through 4 over the period requested, i.e. the first week of January was to be provided, the second week of February, the third week of March, the fourth week of April, the first week of May, etc. Data were requested for all of 1986, but since data for December were not available at the time of our request, information was actually obtained for the first 11 months of 1986 only.

Raw data obtained from the Journal of Commerce were further refined. Firms with multiple entries on the file were combined, weights and values being totaled. Firms listed that possessed foreign mailing addresses were eliminated. Finally, those firms having no mailing addresses were left in the universe, the intention being to research full mailing addresses if and when these firms were selected for sampling.

Data were stratified by country, and then by export value, if necessary, using cum square root of frequency techniques to determine optimal strata

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1/ Haiti was not included in the sample because the United States Trade Representative staff informed the Commission that Haiti had canceled its program and therefore should be dropped from the list. When it was determined that Haiti's program was in operation, it was too late to include Haiti in the purchased database. However, Haiti was included on the questionnaire so that if a sampled company also exported to Haiti, information could be provided.

breaks. Using optimal sample allocation, the number of firms to be sampled for each country was determined. With the given universe, sample size selected was such as to ensure projected universe totals for export value below plus or minus 10 percent, and in most cases below 5 percent, with a ninety-five percent confidence. Actual firms within strata were randomly selected.

Of the 887 country-firm combinations originally sampled, 113 were discarded because they duplicated firms already selected, but for different countries. Some 264, or 30 percent, of the total sample of country-firm combinations had no street, city, and State information. Attempts were made to locate full mailing addresses, but given the significant amount of time estimated to research this information, a decision was made to drop these firms from the sample as well. A sample of 510 unique firms remained.

To replace firms dropped from the original sample for lack of a full mailing address, the database was again refined before this supplemental sampling was performed. Entries from the original sampling universe already selected were eliminated. All remaining entries without a full mailing address were dropped. This resulting database was then sampled. The number of firms actually selected within each strata was the difference between the original sample size selected for that strata, minus the number of sample firms already selected and remaining after duplicates and entries having incomplete address information had been eliminated, subject to availability of remaining firms to be sampled within a strata. Of the 193 entries randomly selected in this manner, 53 were subsequently eliminated because they duplicated firms previously sampled. The 140 resulting unique firms selected in this pass, with the original sample of 510 unique companies obtained earlier, provided a final list of 650 firms to be surveyed.

Countries included in sample

1. Angola
2. Bolivia
3. Burundi
4. Congo
5. Ecuador
6. Equatorial Guinea
7. Ghana
8. Guatemala
9. Guinea
10. Indonesia
11. Ivory Coast
12. Jamaica
13. Kenya
14. Liberia
15. Madagascar
16. Mexico
17. Nigeria
18. Paraguay
19. Rwanda
20. Suriname
21. Tanzania
22. Uganda
23. Zambia
24. Zaire
25. Venezuela

Of the 650 questionnaires in the original sample, seven addresses to U.S. Government agencies or international organizations (e.g., the United Nations) were deleted from the mailing list, leaving a total net sample of 643 exporters and producers. 1/ The 643 questionnaires elicited 513 responses, or a response

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1/ The 643 questionnaires were mailed the week of Apr. 15, 1987, with a due date of May 15. The final cutoff date for inclusion of useable responses, after two followup mailings to nonrespondents, was June 12. Eleven responses arriving after that date were not included in the data processing.

rate of 80 percent. Of that number, 401 responses contained data. Another 112 recipients of questionnaires (17 percent) indicated that the questionnaire was not applicable to their company's operations for a variety of reasons, including the following: (1) the company exported only personal household effects and no sales were involved; (2) the company did not export during 1986 to any of the PSI countries; (3) the company is no longer in business; (4) the company is a nonprofit organization exporting only donations or items for use by missionaries and thus were not subject to any inspections. A total of 102 recipients (16 percent) did not respond either via mail or telephone to the questionnaire, or the Commission's two followup letters. During the course of the sampling period, 29 questionnaires (5 percent) were returned to the Commission as undeliverable because of inaccurate addresses. The responses were as follows:

	Number	Percent
Total sample	650	
Deletions	7	
Net sample	643	
Undeliverable	29	4.5
No response	102	15.9
Responses	513	79.8
Completed	401	62.4
Other 1/	112	17.4

1/ Questionnaire not applicable.

OMB Number: 3117-0155
APPROVAL EXPIRES: 12/1/87

Return to:
United States International Trade Commission
Washington, D.C. 20436
by
May 15, 1987

PRESHIPMENT INSPECTION PROGRAMS: QUESTIONNAIRE FOR U.S. EXPORTERS AND PRODUCERS

The information called for in this questionnaire is for use by the U.S. International Trade Commission in connection with its investigation No. 332-242, that was requested by the U.S. Trade Representative (USTR) at the direction of the President, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), notice of which (see copy enclosed) was published in the *Federal Register* on January 21, 1987. The information requested is needed to supplement data available from other sources and is required under the authority of section 332 of the Tariff Act of 1930. This report is mandatory and failure to reply as directed can result in the issuance of a subpoena or other order to compel the submission of records or information in your possession under the authority of section 333(a) of the Tariff Act of 1930 (19 U.S.C. 1333(a)).

This questionnaire concerns preshipment inspections (see p. 3 for definition) required on U.S. export shipments to the following countries:

Central and South America

Bolivia, Ecuador, Guatemala, Haiti, Jamaica, Paraguay, Suriname, Venezuela

Africa

Angola, Burundi, Congo, Equatorial Guinea, Ghana, Guinea, Ivory Coast, Kenya, Liberia, Madagascar, Nigeria, Rwanda, Tanzania (and Zanzibar), Uganda, Zaire, Zambia

Other

Mexico, Indonesia

If your firm exported directly to any of these countries during 1986, fill in the appropriate blanks in the questionnaire and return to the U.S. International Trade Commission, Washington, D.C. 20436, as soon as possible, but no later than May 15, 1987. If your firm did not export directly to any of the countries listed above, check (X) here ☐, fill in the name and address of your firm below, sign the certification, and promptly return this page to the Commission. The enclosed prepaid envelope may be used to return this page or the completed questionnaire.

The commercial and financial data furnished in response to this questionnaire that reveal the operations of your firm will be treated as confidential by the Commission and will not be disclosed except as may be required by law. Such confidential information supplied by you will not be published in a manner that will reveal the individual operations of your firm. THE COMMISSION ANTICIPATES THAT IT MAY BE REQUIRED TO DISCLOSE TO USTR ALL OR PART OF YOUR RESPONSES TO THIS QUESTIONNAIRE. USTR, HOWEVER, HAS INDICATED THAT IT WILL MAINTAIN CONFIDENTIALITY OF SUCH INFORMATION CONSISTENT WITH ITS REGULATIONS.

Name, address, and telephone number of reporting firm:

____

____

____

Reporting firm is: Manufacturer ___ Export broker ___ Trader/merchant ___
Other(*specify* ______________________) ___ See definitions, page 3.

CERTIFICATION

The undersigned certifies that the information herein supplied in response to this survey is complete and correct to the best of his/her knowledge and belief.

DATE	SIGNATURE OF AUTHORIZED OFFICIAL
AREA CODE & TELEPHONE NUMBER	NAME AND TITLE OF AUTHORIZED OFFICAL (Please type)

GENERAL INSTRUCTIONS

1. If you have any questions concerning this questionnaire or other matters related to this investigation, you may contact Constance Hamilton (202-523-1179) of the Commission's staff. Additional questionnaires will be supplied promptly upon request, or photocopies of this questionnaire may be used. Address all correspondence to the United States International Trade Commission, Washington, D.C. 20436, or via "mailgram" to TWX number 710-822-9507.

2. If the answer to any question is "zero" so indicate; if it is not available indicate "N/A" rather than leave the space blank. If the information requested is not readily available from your records in exactly the form requested, furnish carefully prepared estimates—designated as such by the letter "E"—and explain the basis of your estimates. Any necessary comments or explanations should be supplied in the space provided or on separate sheets attached to the appropriate page of the questionnaire.

3. Unless otherwise specified, supply all annual data requested on a calendar-year basis.

4. Report all value data requested in U.S. dollars. If it is necessary to convert, use the exchange rate you received at the time of the transaction.

5. Report data only for your establishments located in the United States that exported directly to the subject countries. Do not report on sales to any U.S. intermediaries. A firm operating, either on its own or through an affiliated or subsidiary firm, with more than one establishment may (a) combine the data for all establishments/firms in a single report, or (b) make a separate report for each establishment/firm. If data are combined, so indicate below by giving the name and address of each establishment/firm included.

6. Please estimate the number of hours required to complete the data requested in this questionnaire. Include clerical time needed to complete the form

Name and address of establishment(s) covered by this questionnaire (if different from that shown on page 1).

___

___

___

Name and address of your parent firm and the extent of ownership (if applicable).

___

___

___

DEFINITIONS

For the purpose of this questionnaire, the following definitions apply;

1. *Firm.*—An individual proprietorship, partnership, joint venture, association, corporation (including any subsidiary corporation), business trust, cooperative, trustees in bankruptcy, or receivers under decree of any court, owning or controlling one or more establishments.

2. *United States.*—The 50 states, the District of Columbia, and Puerto Rico.

3. *Preshipment inspection.*—Examination on behalf of the foreign government of the quality and quantity of goods exported to them and evaluation of whether the transaction value corresponds within acceptable limits to the export market price generally prevailing in the country of origin/suppy, as determined by the inspection company.

4. *Average.*—The value that summarizes or represents the level generally prevailing. The most frequently occurring value, or mode.

Commodity classifications:

For the purposes of this questionnaire, the following U.S. Foreign Trade Schedule B (export) commodity classifications will be used.

Schedule 1.—Animal and vegetable products

Schedule 2.—Wood and paper; printed matter

Schedule 3.—Textile fibers and textile products

Schedule 4.—Chemicals and related products

Schedule 5.—Nonmetallic minerals and products

Schedule 6. Parts 1-3.—Metals and metal products

Schedule 6. Parts 4-6.—Machinery and transportation equipment

Schedule 7.—Specified products; miscellaneous and nonenumerated products

Schedule 8.—Special classifications division - Other

Section 1.—Value and type of shipments exported to countries requiring preshipment inspections.

A. Please indicate the total value of shipments exported by your firm to countries requiring preshipment inspections in 1986 by Schedule B commodity classifications.

Line No.	*Schedule B No.*	*Total value of shipments*
		1,000s of dollars
01	Sched 1	
02	Sched 2	
03	Sched 3	
04	Sched 4	
05	Sched 5	
06	Sched 6, parts 1–3	
07	Sched 6, parts 4–6	
08	Sched 7	
09	Sched 8	

Section 1.—Continued

B. Please indicate in the first column the total *number* of all shipments exported directly by your firm in 1986 to the countries indicated below. Indicate in the second column the total *value* of such shipment. In the third column, indicate the *percent of the total value* of shipments that were subject to preshipment inspections. All values should be actual return on sales f.o.b. your firm's U.S. point of shipment.

Line No.	*Country*	*Total number of shipments*	*Total value of shipments*	*Percent of total value inspected*
			1,000s dollars	
01	Angola			
02	Burundi			
03	Congo			
04	Ecuador			
05	Equatorial Guinea			
06	Ghana			
07	Guinea			
08	Haiti			
09	Indonesia			
10	Ivory Coast			
11	Kenya			
12	Madagascar			
13	Mexico			
14	Nigeria			
15	Paraguay			
16	Rwanda			
17	Suriname			
18	Tanzania*			
19	Uganda			
20	Zaire			
21	Zambia			

* Includes Zanzi

Section 1.—Continued

C. The following countries instituted preshipment inspections on or after January 1, 1986. Please indicate, therefore, the same information requested in the previous question B *for the period specified* for these countries.

Line No.	*Country and period*	*Total number of shipments*	*Total value of shipments*	*Percent of total value inspected*
			1,000s of dollars	
01	Bolivia Aug.-Dec. 1986			
02	Guatemala Sept.-Dec. 1986			
03	Jamaica Feb.-Dec. 1986			
04	Liberia April-Dec. 1986			
05	Venezuela June-Dec. 1986			

Section 2.—Assessment of preshipment inspection practices

A. Effect of preshipment inspection process on length of time required to make an export shipment and related processes.

A-1. For countries to which you export requiring preshipment inspections in 1986, please indicate the average number of calendar days required from the time the material was readied at the plant for inspection until your firm was issued a clean report of findings. Indicate also the average number of days required on shipments to countries that do not require preshipment inspections from the time the shipment was readied at the plant for shipment to the time your firm was able to furnish an invoice for payment.

Length of shipment process to:	*Average number of calendar days*
01 Countries with preshipment inspection process	________
02 Countries without preshipment inspections	________

A-2. If you experienced delays as a result of preshipment inspections in 1986, on shipments to any of the countries requiring preshipment inspections, please indicate below the number of shipments that were delayed, the total value of such shipments and the average delay in calendar days. Report only on shipments for which there were delays.

Line No.	*Country*	*Number of shipments*	*Total value of shipments*	*Average delay*
			1,000s of dollars	*Calendar days*
01				
02				
03				
04				
05				
06				
07				
08				
09				
10				
11				
12				
13				
14				
15				

Section 2.—Continued

B. Price determination

B-1. Please indicate below the total number of shipments subject to preshipment inspections for which the invoice price was questioned.

Occurrence	*No. of shipments*
01. Price asserted by inspection company to be too high	________
02. Price asserted by inspection company to be too low	________

Please list the country(ies) of destination for which price was asserted by the inspection company to be too low________________

____

B-2. In cases where the inspection company asserted that the price of the commodity was *too high or too low*, please indicate which of the following actions your firm pursued. Indicate in the two columns the total number of shipments in 1986 for which the action was taken and the average number of calendar days required to resolve the problem.

Line No.	*Action taken*	*Total number of shipments*	*Average number of days to resolve*
01	Decreased the transaction price	________	________
02	Provided additional documentation and/or other evidence in support of your price, and price was accepted by the inspection company	________	________
03	Cancelled the order	________	________
04	Received a non-negotiable report of findings .	________	________
05	Transaction price remained the same but importers paid duty on higher value asserted by inspection company	________	________
06	Other (specify)	________	________

B-3. Please indicate by checking (x) at what point in the inspection procedure the inspection company most often notified your firm that there was a question regarding your price on shipments during 1986.

☐ 01. When preliminary documents were presented to the inspection company requesting inspection of material.

☐ 02. When final documents were presented to the inspection company.

☐ 03. After shipment had been made.

☐ 04. Other

Section 2.—Continued

B-4. If your firm was required to change prices on shipments in 1986, to any of the countries requiring preshipment inspections, please indicate below the number of shipments for which price was changed, the total value of such shipments prior to the price change and the total value of the shipments after the price change. **Report only on shipments for which prices were changed.**

Line No.	*Country*	*Number of shipments*	*Total value of shipments before price change*	*Total value of shipments after price change*
			1,000s dollars	
01				
02				
03				
04				
05				
06				
07				
08				
09				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

Section 2.—Continued

C. Other practices:

C-1. Please indicate the total number of shipments subject to preshipment inspections in 1986 for which the problem specified below occurred.

Line No.	*Problem*	*Total number of shipments*
01	(1) Refusal of inspection company to provide special inspection procedures of quality and quantity of shipments when shipment requires refrigeration, special storage facilities, etc.	
02	(2) Refusal of inspection company to expedite procedures when letter of credit or permit is due to expire	
03	(3) Second inspection required because (a) the goods were not available for inspection on the date assigned for initial inspection	
04	(b) the goods inspected at initial inspection were asserted by inspection company not to be of the proper quality or quantity	
05	(c) inspector failed to arrive at the date and time assigned for the initial inspection	
06	(4) Value stated in clean report of findings differed: from that stated on import license authorizing foreign exchange document or letter of credit	
07	(5) Papers lost by inspection company and duplicates had to be provided	
08	(6) Shipment made and clean report of findings not issued	
09	(7) Inspection company set limits on freight charges	
10	(8) Other (specify) ________________ ________________	

Section 2.—Continued

C-2. Has the inspection company been willing and able to answer questions that you have raised about procedures and requirements for preshipment inspections?

Yes	No	Don't know
☐	☐	☐

Comment:

C-3. Have you encountered any specific situations where business price information was not held in a confidential manner by the inspection company? If so, please provide specific incidences when confidentiality was not maintained.

C-4. Have you sought to appeal any disagreement with the inspection company to the importing country(ies)? If so, please explain circumstances and result.

Section 2.—Continued

C-5. Please indicate by checking which of the following data the inspection company has asked for as part of the preshipment price/quantity/quality inspection.

- ☐ 01. Published U.S. price lists.
- ☐ 02. Published or unpublished export price lists.
- ☐ 03. Unpublished price lists based on quality or packaging differences, quantity discounts for volumes, special prices needed to enable suppliers to meet domestic or foreign competition, or other "justification" of invoice price if invoice prices do not match prices on published price list
- ☐ 04. Profit margins
- ☐ 05. Manufacturing costs, including sources and costs of new materials and direct costs of processing.
- ☐ 06. Mark-ups over manufacturing costs
- ☐ 07. Brokerage fees.
- ☐ 08. Freight forwarders fees
- ☐ 09. Ocean, air, and other freight charges
- ☐ 10. Copies of contracts between buyers and sellers
- ☐ 11. Details of product composition
- ☐ 12. Technical literature and catalogs on the merchandise
- ☐ 13. Access to restricted areas
- ☐ 14. Preshipment proformas
- ☐ 15. Letter of credit
- ☐ 16. Other Specify ______________________________

____

____

Section 2.—Continued

D. Cost of preshipment inspections.

D-1. **The following question is optional. Please complete this question only if those costs attributable to preshipment inspection exceed the usual export preparation.** If your firm incurred any of the following costs to complete shipments to any of the countries requiring preshipment inspections in 1986, please indicate below the average cost per shipment and the number of shipments for which the costs were incurred.

Line No.	Country	Telephone calls and courier fees		Charges for L/C* discrepancies		Demurrage charges		Other	
		Cost per shipment	Number of shipments	Cost per shipment	Number of shipments	Cost per shipment	Number of shipments	Cost per shipment	Number of shipments
		Dollars		Dollars		Dollars		Dollars	
01									
02									
03									
04									
05									
06									
07									
08									
09									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									

E-18

Section 2.—Continued

D-2-a. Approximately how many employees are involved in the preshipment inspection process at your firm, including personnel required to gather documents and coordinate inspections, sales personnel, etc. than would otherwise be required by the present export process without preshipment inspection?

Number of employees ________________ (01)

D-2-b. Approximately what percentage of their time is spent on activities directly related to preshipment inspections?

Percentage of time spent on preshipment inspections ________________ (02)

D-2-c. Has your firm hired additional personnel to specifically handle any aspect of preshipment inspections? If so, how many personnel has your firm hired and approximately what percentage of their time is spent on activities related to preshipment inspections?

Number of new personnel ________________ (03)

Percentage of time spent on preshipment inspection ________________ (04)

D-2-d. Please provide your best estimate of the average total personnel costs per shipment of the preshipment inspection process.

____ (05)

D-3. As a result of preshipment inspections, has your firm realized any reduction in time or costs associated with customs clearing procedures at the port of entry?

Yes	No	Don't know
☐	☐	☐

Section 2.—Continued

E. Overall comments on the preshipment inspection process

Utilize the space below to make any general comments you may have concerning the preshipment inspection process.

END OF QUESTIONNAIRE

APPENDIX F

ENGLISH TRANSLATION OF WEST GERMAN PSI REGULATIONS

German regulations regarding preshipment inspection

INFORMAL TRANSLATION:

Chapter V - Trade in Services

1. Title: Limitations on active Trade in Services

....

Paragraph 44a:

Limitations pursuant to paragraph 6, Chapter 1, foreign economic law:

The completion and fulfillment of contracts between local and foreign parties as well as the procurement of business by local parties on behalf of foreign parties require authorization in so far as the object of the contracts or the procurement of business is the continuous examination of prices of goods or services which are destined for foreign economic areas.

....

Catalogue of Conditions

2. This authorization is granted under the following conditions:

2.1 Uniform criteria the same as those applied by your worldwide business to other export countries are to be applied for all evaluations. Deviations from your criteria which would be disadvantageous to local exporters may not be made. Criteria for evaluation must be provided to the exporter in a timely manner before the evaluation.

2.2 The evaluation must be made under careful consideration of all technical, commercial aspects of the export transaction concerned and the transportation services which are involved on the basis of market prices.

2.2.2. In so far as it is impossible to determine a market price, evaluation must be made on the basis of a comparison with the market price of the goods or services which are the most similar to the subject of the evaluation.

2.3. The evaluation may not extend to:

--technical documents which are the subject of confidential patent applications or licensing agreements,

--contractual relations with subsuppliers,

--internal business calculation documents including rebate agreements.

This is not applicable however in cases where the exporter of the documents specified provides them of his own volition in order to clarify an individual case.

2.3 In evaluating transport services, the appropriate authoritative market price for the method of tansportation chosen in agreement with the foreign purchaser (e.g., conference shipping, outsider shipping, and charter shipping) and for the concerned transportation area is to be taken as a basis.

2.4 Evaluation must be completed without any delays attributable to you and prior to shipment. The exporter must be given the opportunity to express a position in the event that the contracted prices cannot be certified.

2.5 The original as well as one copy of the certification must be provided to the exporter.

2.6 Documents which support the evaluation may not be given to the requester or to third parties without the consent of the exporter. Your employees are also obligated in this respect.

Evaluations must be completed by you (the German subsidiary) in the same economic area that the goods are presented by the exporter for examination.

2.7 The Federal Economic Office is to be kept immediately informed for all circumstances that affect the length of the underlying mandate for the price examination activity.

APPENDIX G

PSI COUNTRIES' TRADE WITH THE WORLD, 1983-85

Table G-1.--PSI countries' trade with the world, 1983-1985

(In millions of dollars)

Country/year	Total	Exports 1/	Imports 1/	Trade balance 2/
Angola				
1983............	3/	3/	3/	3/
1984............	3/	3/	3/	3/
1985............	3,509.2	2,190.3	1,318.9	871.4
Bolivia				
1983............	1,344.3	755.2	589.1	166.1
1984............	1,216.1	724.5	491.6	232.9
1985............	1,175.3	623.4	551.9	71.5
Burundi				
1983............	190.3	63.8	126.5	-62.6
1984............	254.7	99.0	155.8	-56.8
1985............	295.3	118.6	176.7	-58.1
Congo				
1983............	1,715.7	1,066.2	649.5	416.7
1984............	1,887.0	1,269.4	617.6	651.8
1985............	3/	3/	3/	3/
Ecuador				
1983............	3,756.0	2,348.0	1,408.0	940.0
1984............	4,189.0	2,622.0	1,567.0	1,055.0
1985............	4,593.0	2,870.0	1,723.0	1,147.0
Eq. Guinea				
1983............	3/	3/	3/	3/
1984............	3/	3/	3/	3/
1985............	50.9	27.3	23.6	3.7
Ghana				
1983............	938.8	439.1	499.7	-60.6
1984............	1,098.9	565.9	533.0	32.9
1985............	1,301.1	632.4	668.7	-36.3
Guatemala				
1983............	2,147.7	1,091.7	1,056.0	35.7
1984............	2,314.4	1,132.2	1,182.2	-50.0
1985............	2,136.4	1,059.7	1,076.7	-17.0
Guinea				
1983............	3/	3/	3/	3/
1984............	3/	3/	3/	3/
1985............	834.0	464.0	370.0	94.0
Haiti				
1983............	540.7	186.6	354.1	-167.5
1984............	574.7	214.6	360.1	-145.5
1985............	1,051.8	485.2	566.6	-81.4
Indonesia				
1983............	36,415.0	18,689.0	17,726.0	963.0
1984............	35,801.0	20,754.0	15,047.0	5,707.0
1985............	31,232.0	18,527.0	12,705.0	5,822.0

See footnotes at end of table.

Table G-1.--PSI countries' trade with the world, 1983-1985--Continued

(In millions of dollars)

Country/year	Total	Exports 1/	Imports 1/	Trade balance 2/
Ivory Coast				
1983............	3,701.5	2,066.3	1,635.2	431.1
1984............	3,989.0	2,645.6	1,343.4	1,302.2
1985............	4,282.6	2,882.5	1,400.1	1,482.4
Jamaica				
1983............	1,809.9	685.7	1,124.2	-438.5
1984............	1,739.3	702.3	1,037.0	-334.7
1985............	1,567.4	568.6	998.8	-430.2
Kenya				
1983............	2,129.2	925.2	1,204.0	-278.8
1984............	2,382.7	1,033.9	1,348.8	-314.9
1985............	2,231.1	942.1	1,289.0	-346.9
Liberia				
1983	794.0	428.0	366.0	62.0
1984............	772.0	452.0	320.0	132.0
1985............	687.0	436.0	251.0	185.0
Madagascar				
1983............	687.0	313.0	374.0	-61.0
1984............	656.0	335.0	321.0	14.0
1985............	785.4	315.9	469.5	-153.6
Mexico				
1983............	30,862.0	22,312.0	8,550.0	13,762.0
1984............	35,451.0	24,196.0	11,255.0	12,941.0
1985............	35,327.0	21,867.0	13,460.0	8,407.0
Nigeria				
1983............	21,702.0	10,309.0	11,393.0	-1,084.0
1984............	20,671.0	11,827.0	8,844.0	2,983.0
1985............	21,256.0	12,804.0	8,452.0	4,352.0
Paraguay				
1983............	877.4	326.0	551.4	-225.4
1984............	1,010.4	361.3	649.1	-287.8
1985............	840.3	324.4	515.9	-191.5
Rwanda				
1983............	321.7	124.1	197.6	-73.5
1984............	340.1	142.6	197.5	-54.9
1985............	351.3	116.2	235.1	-118.9
Suriname				
1983............	768.4	366.8	401.6	-34.8
1984............	710.4	364.6	345.8	18.8
1985............	612.7	314.2	298.5	15.7
Tanzania				
1983............	938.1	332.2	605.9	-273.7
1984............	926.7	318.2	608.5	-290.3
1985............	1,226.4	300.6	925.8	-625.1

See footnotes at end of table.

Table G-1.--PSI countries' trade with the world, 1983-1985--Continued

(In millions of dollars)

Country/year	Total	Exports 1/	Imports 1/	Trade balance 2/
Uganda				
1983............	465.1	247.1	218.0	29.2
1984............	481.3	266.8	214.4	52.4
1985............	718.0	395.0	323.0	72.0
Venezuela				
1983............	20,980.0	14,571.0	6,409.0	8,162.0
1984............	23,229.0	15,967.0	7,262.0	8,705.0
1985............	21,566.0	14,178.0	7,388.0	6,790.0
Zaire				
1983............	2,635.0	1,522.0	1,113.0	409.0
1984............	3,046.0	1,993.0	1,053.0	940.0
1985............	2,746.3	1,568.1	1,178.2	389.9
Zambia				
1983............	1,634.0	923.0	711.0	212.0
1984............	1,505.0	893.0	612.0	281.0
1985............	1,301.0	788.0	513.0	275.0

1/ Import and export figures are quoted f.o.b.
2/ Trade balance is exports minus imports.
3/ Not available.

Source: IMF, International Financial Statistics.

APPENDIX H

PSI COUNTRY DEBT

Table H-1.--Total external debt and gross international reserves, PSI countries, 1984

Country	Total external debt 1/	Debt/ exports of goods and services	Gross international reserves 2/	Reserves/ imports of goods and services
	Million dollars	Percent	Million dollar	Months
Central and South America:				
Bolivia........	3,913	467	533	5.8
Ecuador........	8,329	280	739	2.7
Guatemala......	1,960	156	435	3.1
Haiti..........	658	212	18	.4
Jamaica........	3,107	228	97	.6
Paraguay.......	1,495	165	677	6.6
Suriname.......	3/	3/	3/	3/
Venezuela......	34,246	182	12,434	11.1
Africa:				
Angola.........	3/	3/	3/	3/
Burundi........	307	304	25	3/
Congo..........	1,572	3/	12	.1
Equatorial Guinea.......	116	3/	3/	3/
Ghana..........	4/ 1,113	4/ 182	437	6.4
Guinea.........	4/ 1,170	4/ 64	3/	3/
Ivory Coast....	7,406	246	19	0.1
Kenya..........	3,811	235	414	2.6
Liberia........	1,006	205	3	0.1
Madagascar.....	2,218	564	59	1.1
Nigeria........	19,742	160	1,674	1.7
Rwanda.........	281	154	107	3.9
Tanzania.......	3,232	675	27	0.3
Uganda.........	1,016	3/	3/	3/
Zaire..........	4/ 4,236	4/ 197	281	1.8
Zambia.........	3,888	388	55	0.6

See footnotes at end of table.

Table H-1.--Total external debt and gross international reserves, PSI countries, 1984--Continued

Country	Total external debt 1/	Debt/ exports of goods and services	Gross inter- national reserves 2/	Reserves/ imports of goods and services
	Million dollars	Percent		Months
Others:				
Mexico.........	97,307	301	8,019	3.3
Indonesia......	32,480	147	5,730	2.8
All indebted countries. 5/	827,754	188	126,632	2.9

1/ Total external debt is the sum of public long-term debt, private nonguaranteed debt, short-term debt, and the use of IMF special-drawing rights.
2/ Gross international reserves are the sum of a country's holdings in foreign exchange, gold, and IMF special drawing rights and reserves.
3/ Not available.
4/ Figure is not total external debt but public and publicly guaranteed long-term debt disbursed and outstanding and the ratio to exports of goods and services is based on the same figure.
5/ Combined figures for 107 developing countries for which IMF reports data.

Source: The World Bank, World Bank Development Report, 1986, pp. 206, and World Debt Tables: External Debt of Developing Countries, 1985-1986 Edition.

APPENDIX I

U.S. TRADE WITH PSI COUNTRIES, 1984-86

U.S. trade with PSI countries, 1984-1986

(In thousands of dollars)

Country/year	Exports 1/	Imports 2/	Trade balance 3/
Angola			
1984...............	102,692.7	1,010,046.5	-907,353.9
1985...............	136,820.6	1,053,489.4	-916,668.7
1986...............	86,128.5	677,473.7	-591,345.2
Bolivia			
1984...............	102,541.8	151,824.4	-49,282.7
1985...............	116,441.2	99,300.3	17,140.9
1986...............	108,091.8	123,153.5	-15,061.7
Burundi			
1984...............	9,236.0	1,894.3	7,341.7
1985...............	6,169.7	1,099.9	5,069.8
1986...............	1,682.9	10,014.1	-8,331.2
Congo			
1984...............	12,188.4	997,010.7	-984,822.3
1985...............	19,302.0	608,156.0	-588,854.1
1986...............	10,096.7	364,051.1	-353,954.4
Ecuador			
1984...............	626,738.2	1,687,479.4	-1,060,741.2
1985...............	583,981.7	1,834,495.2	-1,250,513.5
1986...............	584,468.8	1,466,719.4	-882,250.5
Equatorial Guinea			
1984...............	26.9	512.6	-485.6
1985...............	211.3	22.7	188.6
1986...............	34.6	190.8	-156.2
Ghana			
1984...............	45,887.8	47,435.3	-1,547.5
1985...............	53,369.2	89,765.3	-36,396.0
1986...............	83,702.6	191,072.8	-107,370.1
Guatemala			
1984...............	369,794.2	446,266.6	-76,472.4
1985...............	398,478.5	399,617.3	-1,138.7
1986...............	392,311.2	614,707.9	-222,396.6
Guinea			
1984...............	32,734.5	109,894.2	-77,159.7
1985...............	49,188.2	115,128.4	-65,940.2
1986...............	24,018.3	89,759.3	-65,741.0
Haiti			
1984...............	405,889.7	377,413.2	28,476.6
1985...............	387,026.2	386,697.2	328.9
1986...............	379,444.2	368,368.7	11,075.4
Indonesia			
1984...............	1,186,500.6	5,381,186.7	-4,194,686.1
1985...............	774,189.5	4,548,264.2	-3,774,074.7
1986...............	910,619.1	3,294,949.5	-2,384,330.4

See footnotes at end of table.

Table I-1.--U.S. trade with PSI countries, 1984-1986--Continued

(In thousands of dollars)

Country/year	Exports 1/	Imports 2/	Trade balance 3/
Ivory Coast			
1984...............	64,108.1	468,634.0	-404,525.9
1985...............	69,189.6	524,305.9	-455,116.3
1986...............	59,257.3	425,405.3	-366,148.0
Jamaica			
1984...............	488,462.8	396,949.3	91,513.5
1985...............	396,070.5	267,016.4	129,054.0
1986...............	445,619.1	297,890.6	147,728.5
Kenya			
1984...............	73,393.9	63,688.5	9,705.4
1985...............	90,526.4	92,405.8	-1,879.3
1986...............	67,410.7	140,667.1	-73,256.3
Liberia			
1984...............	95,628.5	98,340.0	-2,711.5
1985...............	71,521.0	82,912.8	-11,391.8
1986...............	64,579.1	81,616.2	-17,037.1
Madagascar			
1984...............	38,711.6	71,316.8	-32,605.3
1985...............	32,642.3	52,472.1	-19,829.7
1986...............	24,659.9	62,590.2	-37,930.3
Mexico			
1984...............	11,461,203.0	17,762,398.7	-6,301,195.8
1985...............	13,084,252.4	18,938,246.1	-5,853,993.7
1986...............	11,924,850.6	17,196,359.9	-5,271,509.3
Nigeria			
1984...............	570,376.0	2,508,173.6	-1,937,797.6
1985...............	645,113.7	3,001,892.0	-2,356,778.4
1986...............	399,686.6	2,521,601.0	-2,121,914.4
Paraguay			
1984...............	57,283.0	41,709.8	15,573.2
1985...............	84,053.0	23,712.9	60,340.1
1986...............	127,355.7	30,406.6	96,949.1
Rwanda			
1984...............	8,921.2	16,889.0	-7,967.8
1985...............	5,681.8	6,357.3	-675.5
1986...............	4,298.7	10,807.5	-6,508.8
Suriname			
1984...............	98,414.8	104,636.2	-6,221.3
1985...............	84,537.3	60,090.7	24,446.6
1986...............	83,358.8	38,590.5	44,768.3
Tanzania			
1984...............	43,579.0	11,635.9	31,943.1
1985...............	45,854.4	9,791.7	36,062.7
1986...............	37,722.1	12,067.4	25,654.7

See footnotes at end of table.

Table I-1.--U.S. trade with PSI countries, 1984-1986--Continued

(In thousands of dollars)

Country/year	Exports 1/	Imports 2/	Trade balance 3/
Uganda			
1984	3,160.2	92,635.0	-89,474.8
1985	4,749.4	112,638.2	-107,888.8
1986	4,218.6	133,038.4	-128,819.9
Venezuela			
1984	3,307,091.3	6,474,953.6	-3,167,862.3
1985	3,093,805.4	6,444,598.3	-3,350,792.9
1986	3,062,210.0	4,982,012.3	-1,919,802.2
Zaire			
1984	81,619.7	501,731.1	-420,111.4
1985	102,292.2	400,701.0	-298,408.8
1986	103,425.3	221,073.9	-117,648.6
Zambia			
1984	90,390.0	126,349.1	-35,959.1
1985	59,405.0	56,441.5	2,963.5
1986	34,693.9	63,130.2	-28,436.3

1/ Exports are domestic exports only.
2/ Imports are imports for consumption, customs basis.
3/ Trade balance is exports minus imports.

Source: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX J

OPTIONAL QUESTIONNAIRES TO U.S. EXPORTERS AND PRODUCERS

OPTIONAL QUESTIONNAIRES TO U.S. EXPORTERS AND PRODUCERS

After the Commission mailed its mandatory questionnaire on April 6, 1987, to its sample of exporters and producers, a number of firms contacted the Commission expressing a desire to participate in the survey. The Commission determined that companies interested in the investigation that did not get selected in the sample should also have an opportunity to participate in the survey. However, data from the optional questionnaires was tabulated separately in order to maintain the integrity of the statistical sample.

The optional questionnaire was mailed on April 13, 1987, to companies who (1) requested a questionnaire; (2) had submitted an independent written statement to the record; or (3) were otherwise known to ITC staff as wanting to participate in the survey. A total of 41 optional questionnaires were mailed. The optional questionnaire is identical to the mandatory questionnaire except that it clearly stated response is not mandatory. A total of 12 companies returned the optional questionnaire.

Optional exporter questionnaire responses

Shipments reported in the optional questionnaires were valued at $71 million, or less than 1 percent of the total value of shipments in 1986 to the 26 countries investigated as requiring preshipment inspections (PSI's). Of the value reported, 58 percent of the shipments were inspected. This is a higher proportion than that reported by the mandatory questionnaire respondents. As shown in table J-1, the majority of the exports were

Table J-1.--Reported value of exports to countries requiring preshipment inspections, by Schedule B, 1986

(F.a.s. value, in thousands of dollars)

Schedule B No.	Description	Total value of exports in sample
1...........	Animal and vegetable products.............	1,017
2...........	Wood and paper: printed products...........	5,982
3...........	Textile fibers and textile products........	1,354
4...........	Chemicals and related products.............	60,174
5...........	Nonmetallic minerals and products..........	46
6 pts. 1-3...	Metals and metal products..................	7
6 pts. 4-6...	Machinery and transportation...............	1,564
7...........	Miscellaneous and nonenumerated products...	1,339
8...........	Special classifications division - Other...	6
	Total................................	71,490

Source: Compiled from information supplied in response to optional questionnaires of the U.S. International Trade Commission.

chemicals and related products (84.2 percent by value), and wood, paper, and printed products (8.4 percent). Of the remaining shipments, 1.4 percent were shipments of animal and vegetable products, 2.2 percent were shipments of metals, metal products; machinery and transportation, 1.9 percent were shipments of miscellaneous and nonenumerated products, and 1.9 percent were textile fibers and textile products. Nonmetallic minerals and products and special classifications each accounted for less than 0.1 percent of total shipments to countries requiring pre-shipment inspections. This distribution is distinctly different from those of the mandatory questionnaires and the official trade statistics in that chemicals is very heavily represented.

Length of the shipping process and delays

In response to the questions on length of the shipping process and delayed shipments, these firms reported insignificant differences in the length of the shipping process from those reported in the mandatory questionnaires. These respondents reported that shipments to countries that require PSI's takes, on average, 24 calendar days, whereas shipments made to countries that do not require PSI's take an average of 8 calendar days to complete. The mandatory questionnaire respondents reported 21 and 7 days, respectively. As noted in chapter 2, this comparison provides a good indication of the additional length of time required for the PSI process. Other factors may also affect the process of exporting to countries requiring PSI's, such as exchange controls and customs procedures.

As for delays, the optional respondents reported delayed shipments in 78 percent of all inspected shipments, nearly twice the rate of the mandatory respondents (40 percent). The average length of delay was reported to be 26 days.

Delayed shipments as share of inspected shipments..(percent).	78.2
Value of delayed shipments...(1,000 dollars).................	24,223
Average delay...(calendar days).............................	26

Price determination

Respondents to the optional questionnaires reported that the invoice price on their shipments was found to be too high by the inspection company in 16 out of 1,211 inspected shipments, or 1.3 percent. This is less than the 3.5 percent reported on the mandatory questionnaires. In 12 cases (75 percent), the exporter provided additional documentation in support of their prices, and the inspection company accepted the original price (table J-2). In one case (6 percent), the exporter decreased the transaction price in order to make the shipment. Finally, in three cases (19 percent), the respondents reported that they received a Non-Negotiable Report of Findings.

Table J-2.--Percent of shipments for which certain actions were taken by the exporter when the inspection company asserted that the export price was too high, 1986

Action taken	Share of disputed shipments	Average number of days to resolve
	Percent	Calendar days
Decreased the transaction price	6	95
Provided additional documentation and/or other evidence in support of exporter's price, and price was accepted by the inspection company	75	10
Received a Non-Negotiable Report of Findings	19	43

Source: Compiled from information supplied in response to optional questionnaires of the U.S. International Trade Commission.

The optional questionnaires revealed that the most frequent point at which they were notified of a question on price was after the shipment was made, followed by the final presentation of papers and the initial presentation of papers, as shown in the following tabulation:

Point in inspection procedure when exporter was notified of a question on price	Percent of respondents
When preliminary documents were presented to the inspection company requesting inspection of material	20.0
When final documents were presented to the inspection company	30.0
After shipment was made	40.0
Other	10.0

Other practices

Respondents to the optional questionnaires reported that inspection companies interfered with the shipment process by not issuing a clean report of findings until after the shipment had been made, refusing to expedite procedures when permits or letters of credit are due to expire, and delaying the process by requiring a second inspection because the inspector failed to arrive. These exporters also claimed that inspection companies request data that is considered confidential. The frequency of such practices reported by questionnaire respondents is summarized below, in table J-3.

Table J-3.--Percent of shipments for which certain practices by the inspection company occurred, 1986

Practice	Percent of total number of inspected shipments
Refusal of inspection company to expedite procedures when letter of credit or permit is due to expire...........	2.0
Second inspection required because the goods were not available for inspection on the date assigned for initial inspection...........................	0.2
Value stated in clean report of findings differed from that stated on import license........................	1.1
Papers lost by inspection company and duplicates had to be provided..	2.0
Shipment made and clean report of findings not issued........	2.8
Inspection company set limits on freight charges.............	0.1
Other..	0.1

Source: Compiled from information supplied in response to optional questionnaires of the U.S. International Trade Commission.

The type of data most frequently requested by the inspection companies were pre-shipment proformas (reported by 40 percent of the respondents), published or unpublished export price lists (40 percent), published U.S. price lists (36 percent), and copies of letters of credit (32 percent). These are reported in table J-4. Other information that inspection companies requested from the exporters includes copies of invoices, statements about commissions (agent and amount), photographs of production areas, and certificates of analysis.

Exporter's evaluations of pre-shipment inspections

All of the optional questionnaire respondents had negative comments on pre-shipment inspections, with 64 percent of the respondents having strong objections based on principles (especially the issue of confidential information being compromised). About 26 percent of the respondents had specific complaints about the costs and delays incurred due to the inspection programs.

Costs of pre-shipment inspections and their effect on U.S. exports

A number of questions were included in the questionnaire to assess the costs and frequency of such costs incurred by exporters for pre-shipment inspections. An assessment of these costs is summarized below.

Table J-4.--Frequency of requests by inspection company for certain types of data, 1986

Type of data	Share of respondents
	Percent
Published U.S. price lists	36
Published or unpublished export price lists	40
Unpublished price lists based on quality or packaging differences, quantity discounts for volumes, or other justification of invoice price if invoice prices do not match prices on published price list	16
Manufacturing costs, including sources and costs of new materials and direct costs of processing	4
Brokerage fees	12
Freight forwarders fees	12
Ocean, air and other freight charges	28
Copies of contracts between buyers and sellers	28
Details of product composition	28
Technical literature & catalogs on the merchandise	28
Access to restricted areas	12
Pre-shipment proformas	40
Letter of credit	32
Other	32

Source: Compiled from information supplied in response to optional questionnaires of the U.S. International Trade Commission.

To assess the costs of delayed payments, information on the length of delays and value of shipments that were delayed was obtained from the questionnaires as discussed above. The cost of delayed payments can be estimated as the interest foregone on the value of the shipments. The commercial paper rate represents a good approximation of the interest rate that a firm could earn for capital not tied up in delayed shipments. Using the 1986 commercial paper rate of 6.50 percent, these delays are estimated to have cost U.S. exporters an average of 0.5 percent, or $117, per shipment delayed.

To assess the personnel costs of pre-shipment inspection procedures, questionnaire respondents were asked to provide information on the number of employees involved in the process and the percentage of their time spent on the process. This information is summarized in the following tabulation:

Personnel required for pre-shipment inspection	Respondent average
Total number of employees....................	7
Percent of time spent on pre-shipment inspection.................................	8.3
Number of new employees hired to handle pre-shipment inspections..................	1
Percent of time spent by new employees on pre-shipment inspections................	100.0
Estimate of average total personnel costs per shipment for pre-shipment inspections...	$139.60

Using the same method described in chapter II, average total personnel costs per shipment were estimated to be $738. This compares to an average cost provided by respondents of $140 per shipment.

Optional questionnaire respondents reported on the frequency and average costs of telephone calls and courier fees, charges for letters of credit discrepancies, and demurrage charges per shipment. Other than incremental personnel costs (reported as "other" and occurring in 78.6 percent of the inspected shipments and averaging $260 per shipment affected), the costs most frequently incurred by exporters for the pre-shipment inspection process were courier fees and telephone calls. These costs occurred for 16.0 percent of the inspected shipments, and amounted to about $188 per affected shipment, on average. Demurrage charges incurred by the exporter resulting from delays at the port of entry awaiting a clean report of findings occurred for 0.5 percent of inspected U.S. shipments and cost $25 per affected shipment, on average. Charges for letter of credit discrepancies through the fault of the inspection company occurred for 2.5 percent of inspected shipments and cost the exporter an average of $66 per affected shipment.

APPENDIX K

COUNTRIES SUBJECT TO PSI UNDER HAITI AND MADAGASCAR'S PROGRAMS

Table K-1.--Countries where preshipment inspections are to take place under Haiti's program:

Europe	Asia	Africa	The Americas
Austria	Bangladesh	Algeria	Argentina
Belgium	Burma	Egypt	Bolivia
Bulgaria	Hong Kong	Ghana	Brazil
Czechoslovakia	India	Ivory Coast	Canada
Denmark	Indonesia	Kenya	Chile
F. R. Germany	Iran	Malawi	Colombia
Finland	Israel	Morocco	Costa Rica
France	Japan	Mozambique	Cuba
German D. R.	Kuwait	Nigeria	Ecuador
Greece	Lebanon	Senegal	El Salvador
Holland	Malaysia	Tanzania	Mexico
Hungary	Pakistan	Tunisia	Panama
Iceland	Philippines	Zambia	Paraguay
Ireland	Saudi Arabia	Zimbabwe	Peru
Italy	Singapore		Puerto Rica
Luxemburg	South Korea		Trinidad and Tobago
Malta	Sri Lanka		U.S.A.
Norway	Taiwan		Uruguay
Poland	Thailand		Venezuela
Portugal			
Romania			
Spain			
Sweden			
		Oceania	
Switzerland		Australia	
Turkey		New Zealand	
United Kingdom			
Yugoslavia			

Table K-2.--Countries in which preshipment inspections are to take place under Madagascar's program:

Europe	Asia	Africa	The Americas
Austria	Bangladesh	Algeria 1/	Argentina
Belgium	Burma 1/	Egypt 1/	Bolivia
Bulgaria 1/	Hong Kong	Ghana	Brazil
Czechoslovakia 1/	India	Ivory Coast	Canada
Denmark	Indonesia	Kenya	Chile
F. R. Germany	Iran	Malawi	Colombia
Finland	Israel	Morocco	Costa Rica
France	Japan	Mozambique 1/	Cuba 1/
German D. R. 1/	Kuwait	Nigeria	Ecuador
Greece	Lebanon	Tanzania	El Salvador
Holland	Malaysia	Tunisia	Mexico
Hungary 1/	Pakistan	Zambia	Panama
Iceland	Philippines	Zimbabwe	Paraguay
Italy	Saudi Arabia		Peru
Luxemburg	Singapore		Puerto Rica
Malta	South Korea		Trinidad and Tobago
Norway	Sri Lanka		U.S.A.
Poland 1/	Taiwan		Uruguay
Portugal	Thailand		Venezuela
Romania 1/			
Spain			
Sweden			
		Oceania	
Switzerland 2/		Australia	
Turkey		New Zealand	
United Kingdom			
Yugoslavia 1/			

1/ Countries in which SGS performs the quantity and quality inspection, but not the price comparison.
2/ Special Swiss system.