

UNITED STATES TARIFF COMMISSION

OPERATION OF THE
TRADE AGREEMENTS PROGRAM

22d Report

1970



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UNITED STATES TARIFF COMMISSION

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1970

Prepared in Conformity With Section 402(b)
of the Trade Expansion Act of 1962

Washington
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Preface

This is the 22nd report issued by the United States Tariff Commission on the operation of the trade agreements program and relates to the calendar year 1970. The report is made pursuant to section 402(b) of the Trade Expansion Act of 1962 (76 Stat. 902), which requires the Commission to submit to the Congress, at least once a year, a factual report on the operation of the trade agreements program.

This report describes principal developments during 1970 that relate to obligations of the United States under the trade agreements program, actions initiated by the Contracting Parties to the General Agreement on Tariffs and Trade to implement that agreement, and commercial policy developments in the major countries with which the United States has trade agreements. Developments within and among the major regional trading blocs also are covered.

The report was prepared principally by Eileen Slack and Eleanor Hadley.

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INTRODUCTION

The Trade Agreements Program in 1970

Nineteen seventy was the thirty-sixth year of the trade agreements program and the eighth year of its operation under the Trade Expansion Act of 1962 (TEA).^{1/} As defined in the Executive order that provided for its administration, signed on April 18, 1963, the program includes all activities consisting of, or related to, the negotiation or administration of trade agreements (other than treaties) concluded pursuant to authority vested in the President by the Constitution, section 350 of the Tariff Act of 1930, as amended, or the TEA. By virtue of this Executive order the Office of the Special Representative for Trade Negotiations was established in the Executive Office of the President, and responsibility for assisting the President in carrying out the trade agreements program and advising him with respect to nontariff barriers to international trade, international commodity agreements, and other matters related to the program became that of the President's Special Representative.

The TEA was entirely new trade legislation enacted "to promote the general welfare, foreign policy, and security of the United States through international trade agreements and through adjustment assistance to domestic industry, agriculture, and labor" Section 350 for "the promotion of foreign trade" was added to the nation's tariff law, the Tariff Act of 1930, by the Trade Agreements Act of 1934, which has been modified or extended eleven times over the course of nearly three decades. The President's authority to negotiate trade

^{1/} In the period preceding enactment of the TEA, the program was conducted under provisions of the Trade Agreements Act of 1934, as amended, the Trade Agreement Extension Act of 1951, as amended, the Trade Agreements Extension Act of 1958, and two Executive orders.

agreements with other countries, delegated under the TEA, expired in 1967 but his authority to administer the trade agreements program and take action under various safeguard provisions of law continued. Existing duties and other import restrictions could be modified or extended and new restrictions could be imposed by Presidential proclamation.

Competition for export markets was intense in 1970, and trade policy, particularly in industrialized countries, was following an uncertain course. It was a period of relative inactivity, in terms of concrete actions and discrete change, and of apprehension on the part of some that most-favored-nation treatment was losing ground and work toward clearing away impediments to trade, as called for in the General Agreement on Tariffs and Trade, was being thwarted-- or at least stagnating.

The United States continued to follow a policy for freer trade, but competition from imports was causing hardship in some industries and the impact of the multinational corporation and U.S. foreign direct investment on domestic production and employment was being scrutinized. There were pressures for tighter import restrictions and broader criteria for extending assistance in cases of injury from imports; the costs and benefits of such actions and of tariff reductions were being discussed. Major trade legislation was introduced in the Congress, in the proposed Trade Act of 1970, which was passed by the House of Representatives but was not approved by the Senate. Also during the year, the President appointed a commission

to do special work and to make recommendations in the field of foreign trade and investment. 1/

The condition of the U.S. merchandise trade account had greatly improved since 1968, but the surplus in this account was diminishing and in the following year the country was to experience its first trade deficit in this century. The overall surplus with the European Common Market had increased substantially, but the deficits with Canada and Japan were deepening. In 1970, the United States was lagging in export growth and the rate of increase in domestic prices, an important determinant of international competitiveness, had not clearly responded to disinflationary measures and a mild recession. Changes in trade balances were being discussed more in terms of their monetary effects, and the new national economic policy adopted in August 1971 was foreshadowed.

Under the Trade Expansion Act of 1962, the President and the Tariff Commission are both required to report to the Congress on the trade agreements program. This is the 22nd such report of the Tariff Commission; it is a factual report, as required by the statute, and reviews, chiefly from an institutional point of view, developments during calendar year 1970.

1/ The Commission's report to the President, known as the Williams Report, and a compendium of related papers, were published in 1971 (U.S. International Economic Policy in an interdependent World, Report to the President by the Commission on International Trade and Investment Policy, Washington, 1971.)

Chapter I

U.S. ACTIVITIES RELATING TO THE
TRADE AGREEMENTS PROGRAMGovernment Actions Under Safeguard Provisions

Safeguarding domestic interests from undesirable consequences of merchandise imports is provided for in most trade and tariff law. In the United States, restrictions may be imposed by administrative (Executive) action when domestic industries are found injured or clearly threatened by injury from increased imports resulting from concessions made under trade agreements, when imports threaten to impair the nation's security, or when imports interfere with certain Government-sponsored agricultural programs.

Safeguard actions are considered to be temporary and flexible measures for relief. Except in certain emergency situations, however, these actions are not taken unless full investigation has been made by one or more Government agencies. The investigations made and actions taken by the United States during 1970 under tariff adjustment (escape clause), adjustment assistance, and national security provisions of the Trade Expansion Act of 1962 (TEA), and the provision for limiting imports of agricultural products under section 22 of the Agricultural Adjustment Act are discussed below: 1/

1/ Reference to U.S. actions in 1970 with respect to investigation of cases involving the dumping of foreign goods in U.S. markets and imposition of dumping duties under provisions of the U.S. antidumping act is made in Ch. 2, below.

Trade Expansion Act of 1962

For many years, trade agreements to which the United States has been a party have included a standard escape clause--a safeguard provision permitting tariff adjustment (modification or withdrawal of tariff concessions) if increased imports resulting from concessions cause or threaten to cause injury to a domestic industry producing like or directly competitive articles. Article XIX of the General Agreement on Tariffs and Trade (GATT) permits actions of this type for such time as necessary to remedy or prevent injury to domestic producers resulting from unforeseen developments and from the effect of obligations incurred under the General Agreement. Modification and renegotiation of the national tariff schedules, annexed to the General Agreement, were provided for under GATT article XXVIII; escape-clause action would provide temporary and moderate modification of the tariff rates.

The escape clause provision of the TEA authorized the President to increase or impose any duty or import restrictions he determined to be necessary to prevent or remedy serious injury if an affirmative finding of such injury had been made by the U.S. Tariff Commission in accordance with the criteria set forth in the statute. Affirmative determinations by the Commission were to be accompanied by recommendations as to the amount of duty increase or other import restriction necessary to prevent or remedy for such injury. The statute provided for periodic review by the Commission of the effects of escape-clause actions and for inquiry into the probable economic effect of

terminating them; it inaugurated the U.S. program for adjustment assistance whereby firms and workers found injured in consequence of import competition might seek economic relief in various forms.

Tariff adjustment.--In 1970, the Tariff Commission conducted four escape-clause investigations under Section 301(b) of the TEA. The industries concerned were engaged in the manufacture of barber chairs; umbrellas (and their metal parts); nonrubber footwear; and bagatelle, billiard, and pool balls. The two investigations concerning footwear and bagatelle, billiard, and pool balls were not entirely completed by yearend. The footwear investigation was the first escape-clause investigation since inauguration of the trade agreements program in 1934 that had been undertaken in response to a Presidential request. It was part of a program of assistance to the nonrubber footwear industry developed by the executive branch on the basis of a previous study made by an interagency task force of the impact of imports on the footwear industry. 1/

The Tariff Commission's findings in these four investigations were as follows:

<u>Investigation No.</u>	<u>Industry Concerned</u>	<u>Findings <u>1/</u></u>
TEA-I-16	Barber chairs	Equally divided vote
TEA-I-17	Umbrellas and metal parts	Negative
TEA-I-18	Nonrubber footwear	Equally divided vote <u>2/</u>
TEA-I-19	Bagatelle, etc., balls	Negative

1/ If the Commission's vote was equally divided into two groups, the President could accept the finding of either group.

2/ The Commission's vote was equally divided except with respect to work and athletic shoes on which its vote was negative.

1/ U.S. Department of State, Bulletin, July 20, 1970, pp. 91-92.

The President took no action for tariff adjustment in any of these cases, but authorized firms and workers in the barber chair industry to apply for adjustment assistance, thereby indicating acceptance of the affirmative finding in the Commission's divided vote.

The following actions were taken during the year concerning escape-clause tariff adjustment already in effect on window glass, pianos and certain carpets.

Window glass: Escape-clause duties on window glass as previously modified were extended by Presidential proclamation, effective April 30, 1970 through January 1972. These rates were to decline thereafter in three annual steps from an escape-clause rate of 20.9 percent to the 15-percent trade-agreement rate. In addition, workers in the industry were authorized to apply for adjustment assistance; this action followed the Tariff Commission's findings in an escape-clause investigation that concerned the industry producing flat glass and specially tempered glass, completed in 1969.

Pianos: By Presidential proclamation of February 21, 1970, the 13.5-percent rate, or the second stage rate of the reduction on pianos negotiated in the Kennedy Round, was reestablished for pianos except grand pianos to be continued for a 3-year period; if no action had been taken, the decline in the duty on these pianos would have continued until a rate of 8.5 percent were reached effective on January 1, 1972. Firms and workers in the domestic piano industry were authorized to apply for adjustment assistance.

Wilton and velvet carpets: The U.S. Tariff Commission concluded two reports concerning Wilton and velvet carpets and rugs, imports of which were subject to escape-clause rates. One was in response to a Presidential request for supplementary information on the probable economic effect of terminating the higher escape-clause rate--a report on this subject had been made in 1969; the other met the statutory requirement for formal review of developments in an industry in whose interests escape-clause action had been taken. The higher duties had been extended by Presidential action from January 1, 1970 through December 31, 1972, on imports of these carpets and rugs of other than oriental design; the duty on imitation oriental floor coverings had been permitted to revert to the trade-agreement rate.

Adjustment assistance.--The tax-funded aid program incorporated in the TEA was intended to provide for adjustment to growth in imports that might result from trade liberalization in consequence of multi-lateral tariff concessions. Some segments of industry might suffer; others might gain, particularly if they were producing for export. Special benefits--adjustment assistance--could be available through government facilities to firms and workers found to be seriously injured, or so threatened, as a result in major part of increased imports from concessions granted under trade agreements. Thus, the criteria for eligibility for benefits were interlocking, and the approach to the

problem of adjustment was ex post. 1/ Benefits could, however, include technical advice and counseling, as well as financial assistance for firms and testing, retraining, and placement services for workers.

For many U. S. industries, 1970 was a year of heightened competition in home markets, ~~and~~ besides the petitions for tariff adjustment, under the escape-clause provision, numerous requests for determinations of eligibility for adjustment assistance were filed on behalf of firms or workers. The number of investigations conducted by the Tariff Commission under the TEA exceeded by far the number in any previous year, and in contrast to other years, many findings were affirmative by virtue of either majority or evenly divided decisions following which the President concurred in the affirmative finding. Firms and workers in industries producing consumer goods and components of such products predominated--they included footwear, television receivers and other electronic and electrical appliances, typewriters, stainless steel tableware, and textiles.

Four investigations concerning firms were completed by the Tariff Commission and three other such investigations were nearing completion at yearend. The findings in these investigations were as follows:

<u>Investigation No.</u>	<u>Firm</u>	<u>Product</u>	<u>Findings <u>1/</u></u>
TEA-F-9	Emil J. Paidar Co.	Barbers' chairs	Equally divided vote
TEA-F-10	Benson Shoe Co.	Shoes	Equally divided vote
TEA-F-11	Ion Capacitor Corp.	Electrolytic capacitors	Equally divided vote
TEA-F-12	Arista Mills Co.	Textiles	Affirmative
TEA-F-13 <u>2/</u>	H.H. Scott, Inc.	Stereo and related equipment	Equally divided vote
TEA-F-15 <u>2/</u>	R.C. Allen, Inc.	Typewriters (manual)	Negative
TEA-F-16 <u>2/</u>	Fibre Form Corp.	Loudspeakers	Negative

1/ If the Commission's vote was equally divided in two groups, the President could accept the finding of either group.

2/ Investigation completed in early 1971.

1/ The different approaches to such adjustment and how other countries deal with the problem are discussed in Frances M. Geiger, "The U.S. Adjustment Assistance Program and Analogous Programs of other OECD Countries," in National Planning Association, Planning Pamphlet No. 130, Washington, 1971, pp. 202-211.

In investigations TEA-F-9, -10, -11, and -13 the President accepted the affirmative findings and authorized adjustment assistance for all five petitioning firms. One of these firms, the manufacturer of barber chairs, received the first loan for trade adjustment assistance approved under the U.S. Small Business Act, the authority for such loans made by the Small Business Administration.

Forty-four investigations were undertaken by the Tariff Commission in response to petitions on behalf of workers; twenty-five were due for completion in early 1971. On the basis of the investigations completed in 1970, about 8,500 persons are believed to have become eligible to apply for special benefits.

National security.--In general, import restrictions may not be decreased or eliminated if the President determines that such action would threaten impairment of the nation's security. Furthermore, Section 232 of the TEA provided that, in cases where increased imports of articles might be adversely affecting the country's capacity to meet national security requirements, investigations could be undertaken by the Director of the Office of Emergency Preparedness (OEP)-- either on his own motion or in response to certain requests. Affirmative findings might lead the President to adjust import restrictions for such time as he deemed necessary. Consideration would be given not simply to the capacity of domestic industries to meet projected defense re-

quirements, but also to the impact of import competition on the economic welfare of industries, employment and skills, and Government revenues.

In August 1970, the OEP issued a report on an investigation, started in 1968, concerning ferroalloys and related products; no threat to national security was found. An investigation concerning miniature and instrument precision ball bearings, started in 1969, was not completed before calendar yearend 1970. 1/ An investigation concerning textiles and textile manufactures initiated before the TEA was enacted was dropped.

Under the authority of the same section 232 of the TEA, restrictions on imports of petroleum and certain products thereof were imposed by Executive action. The current program for controlling oil imports, administered by the Department of the Interior, was established by Presidential proclamation in March 1959. In February 1970,

1/ In May 1971 the Director of OEP reported that impairment of national security was not evident, but that the producing firms essential to the country's mobilization base were facing serious economic difficulties. The Department of Defense therefore adopted a policy that all such bearings used in military-procured items be obtained insofar as possible from U.S. or Canadian manufacturers. (U.S. Congress, Joint Committee on Defense Production, Twenty-first Annual Report on Activities of the Joint Committee on Defense Production, 1972, pp. 104-105.)

the President assigned the Director of OEP the responsibility for managing this program and also established an oil policy committee, comprised of the Secretaries of State, the Treasury, Defense, the Interior, and Commerce; the Attorney General; the Chairman of the Council of Economic Advisers; and to be chaired by the Director of OEP. In the following month the President placed mandatory controls on imports of crude oil from Canada into the districts east of the Rocky Mountains. These quotas were raised in June, but no change in import duties was made during the year. 1/

Section 22 of the Agricultural Adjustment Act: Imports and domestic price support programs

Programs to stabilize U.S. farm prices and incomes have been maintained since 1933, and by virtue of section 22 of the Agricultural Adjustment Act of 1933, enacted in 1935, the President has been authorized to impose duties and quantitative limitations on imports of agricultural commodities found by the U.S. Tariff Commission to interfere with price support programs of the U.S. Department of Agriculture.2/ (In cases of emergency the President could take immediate action pending the Tariff Commission's finding and recommendations--import restrictions imposed under section 22 were not to be affected by any actions taken under the TEA, however.)

1/ For more information on Government programs concerning the U.S. oil import program and petroleum supply in 1970, see U.S. Congress, 19th, 20th, 21st Annual Reports of the Activities of the Joint Committee on Defense Production.

2/ Section 22, which was added by the Agricultural Adjustment Act of 1935, was revised in its entirety by section 3 of the Agricultural Act of 1948 and again by section 3 of the Act of 1950. (U.S. Department of Agriculture, Agriculture Handbook, No. 408, 1971, p. 353.)

In 1970 the Tariff Commission made a finding with respect to certain dairy products (ice cream, chocolate and articles containing chocolate, animal feeds containing milk or milk derivatives, cheese and cheese substitutes), and recommended imposition of absolute quotas to be administered through a licensing system set up in full observance of GATT article XIII. The President subsequently set individual quotas for exporting countries for each of the items included in the Commission's recommendation .

Accommodation of obligations under this domestic legislation and those under the GATT was made in 1955 when under GATT article XXV:5 the Contracting Parties granted the United States a waiver of its commitments under provisions of GATT articles II and XI. ^{1/} This waiver had no expiry date but required submission of an annual report on reasons for maintaining the restrictions and the steps taken to solve the problem of agricultural surpluses. In February 1970, when the fourteenth such report was submitted for review by the working party concerned, the U.S. representative observed that barriers to trade were commonplace, especially for dairy products, that most major importing countries found it necessary to regulate at least part of their imports, and that for each of the four commodity groups covered in the report costly support programs were in operation--free entry would only

^{1/} A discussion of the U.S. request for a waiver and the conditions and rules to be followed whenever restrictions are imposed under sec. 22. is given in U.S. Tariff Commission, Operation of Trade Agreements Program, 8th Report, pp. 43-47.

result in additions to Government stocks. In response, various members of the working party expressed concern about continued imposition of restrictions under a 15-year-old waiver, which they considered had impeded progress toward achievement of GATT objectives inasmuch as the GATT provided other safeguards against the subsidized exports complained of by the United States. The difficult situation faced by the United States was acknowledged, however, and the grave problems in international trade in dairy products then being considered in other GATT bodies were recognized. ^{1/} Regret was also expressed about the import restrictions that had been introduced in 1969 by the United States following a finding made by the Tariff Commission concerning condensed and evaporated milk and cream, certain cheeses, various chocolate and cocoa items, and certain butterfat-sugar mixtures.

Article XXVIII of the GATT: Modification of tariff schedules

The United States invoked GATT article XXVIII, Modification of Schedules, for the first time on August 3, 1970. In an effort to meet the problems of rising imports of stainless-steel table flatware, the United States, having previously reserved its right to modify or withdraw concessions, notified the Contracting Parties to the GATT that it was prepared to commence renegotiation of its tariff concessions on this merchandise.

^{1/} For comment on the GATT arrangement concerning dairy products concluded in 1970, see Ch. 2, below.

In the period following expiration of the existing escape-clause restrictions, in the form of tariff-rate quotas, applicable to stainless-steel flatware for nearly 8 years prior to October 11, 1967, U.S. imports rose sharply, particularly in 1968 and 1969--Japan was the principal supplier. In early 1970 the U.S. Tariff Commission concluded that the effects of these imports were injurious and warranted consideration of some sort of relief for the domestic industry.

Bilateral Agreements

U.S.-Canadian agreement on automotive products

The deficit in the U.S. position with Canada with respect to trade in automotive products (vehicles, parts and engines) deepened in 1970, and in terms of valuation based on end-use analysis accounted for about 48 percent of the deficit in the country's overall trade in these products. 1/ In 1970 the Agreement Concerning Automotive Products Between the Government of the United States of America and the Government of Canada, 2/ had been in operation for nearly 6 years. This agreement established conditions for freer movement between the two countries of products of and for the automobile industry--in which there was already a high degree of sectoral integration and interrelationship of home markets.

1/ Merchandise trade statistics in terms of end-use categories were developed by the U.S. Department of Commerce, Office of Business Economics, from officially recorded U.S. foreign trade statistics; these data were intended to provide a compatible long-term series of data on U.S. exports and imports (U.S. Department of Commerce, Survey of Current Business, issues of December 1970, March 1971, and June 1972).

2/ U.S. Department of State, U.S. Treaties and Other International Agreements, TIAS No. 6093.

By virtue of this special type of bilateral agreement of unlimited duration (each government having the right to terminate it 12 months after giving written notice), both countries extended under specified conditions duty-free treatment on vehicles, 1/ original equipment (except tires and tubes unless mounted on completed vehicles), and parts. Free access for parts and equipment was accorded by both countries only when imported by vehicle manufacturers--such items have accounted for an increasing share in the total two-way trade in automotive products; this proved to be a boon to secondary manufacture in Canada. For automobiles, free access was accorded by the United States regardless of purchaser but by Canada only when imported by domestic manufacturers. 2/ The agreement, which aimed to expand markets and promote trade between the countries, provided conditions for growth in the Canadian share of production. To this end, Canadian producers--the Canadian subsidiaries of American Motors, Chrysler, Ford, and General Motors--individually undertook to increase the Canadian value added in Canadian production by an amount correlated with growth in the Canadian home market for vehicles. 3/

1/ Generally including passenger cars, automobile trucks, motor buses, and snowmobiles.

2/ To implement this agreement the United States enacted the Automotive Products Trade Act of 1965 and subsequently obtained a waiver of its most-favored-nation obligations under the GATT. In requesting the waiver, the United States declared that it did not intend to cause imports into the U.S. market of products of Canada in place of imports of products from other sources (GATT, Basic Instruments and Selected Documents, 14th Supp., p. 38.)

Canada implemented the agreement through an Order in Council, but did not request waiver of GATT obligations since its conditions for preferential treatment on imports were applicable regardless of source.

3/ Letters of undertaking from company officials to Canada's Minister of Industry were reproduced in U.S. Congress, House, Committee on Ways and Means, United States-Canada Automotive Products Agreement, Hearings, 1965, pp. 148-150, 158-159, 189-191, and 194-195.

The period 1965-70 was one of great growth in trade in these products, not only between the United States and Canada but between the United States and other trading partners--trade in which the once comfortable U.S. surplus was supplanted by a growing deficit. This deficit probably worsened in 1970 in consequence of a strike by the United Automobile Workers against General Motors that affected plant operations in both countries and caused delay in some shipments until 1971. In 1970, two-way trade between the two countries declined somewhat from 1969 levels ^{1/} and the upward trend in U.S. exports to, in contrast with the trend in imports from, other areas was only moderate. In reviewing developments in 1970, it should be noted that both revaluation of the West German mark and appreciation of the Canadian dollar, freely floating in terms of the U.S. dollar, pushed up the valuation of U.S. imports. In 1970 West Germany and Canada were the chief sources of U.S. imports of passenger cars. Moreover, 1970 was the first year in which more automobiles were produced in the EC countries than in the United States--only a very small share of the European market for cars being supplied from imports. Data in terms of end-use valuation on the U.S. position with Canada and with the rest of the world with respect to trade in automotive products, 1964 through 1970 by years, are given in the

^{1/} Seasonally adjusted values of U.S. exports to and imports from Canada were sharply higher for the first quarter 1971 than for the fourth quarter 1970.

table on the following page. 1/

1/ Detailed information on production, prices, and employment in the automotive industries of the United States and Canada, together with data showing the composition and geographic pattern of U.S. foreign trade in automotive products according to recorded trade statistics, is set forth in the Fifth Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965, U.S. Congress, Senate, Committee on Finance, committee print, February 1, 1972. (The U.S. Automotive Products Act provided that the President submit to the Congress an annual report on implementation of the act, to include information for evaluating the automotive products agreement with Canada and the act in relation to the total national interest.)

U.S. Trade in Automotive Products (vehicles, parts,
and engines) 1964-1970 ^{1/}

(Millions of dollars)

	1964	1965	1966	1967	1968	1969	1970
Total:							
Exports-----	1,759	1,976	2,408	2,827	3,499	3,954	3,692
Imports-----	776	950	1,923	2,654	4,310	5,363	5,977
Balance-----	983	1,026	485	173	-811	-1,409	-2,285
With Canada:							
Exports to-----	667	914	1,324	1,798	2,425	2,802	2,514
Imports from-----	111	257	929	1,619	2,633	3,510	3,608
Balance-----	555	657	395	179	-208	-708	-1,094
With all other areas:							
Exports to-----	1,092	1,062	1,084	1,029	1,074	1,152	1,178
Imports from-----	665	693	994	1,035	1,677	1,853	2,369
Balance-----	427	369	90	6	-603	-701	-1,191

^{1/} U.S. merchandise trade in terms of principal end-use category.

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

U.S.-Philippine Agreement

The exchange of goods between the United States and the Republic of the Philippines continued in 1970 to be subject to bilateral agreement. The executive agreement covering trade and related matters during the transitional period following institution of Philippine independence, entered into by the two Governments in 1946, was to end on July 3, 1974. In the United States this agreement was authorized by the Philippine Trade Act of 1946, later revised and incorporated in the Philippine Trade Agreement Revision Act of 1955.

The question of the Philippines becoming a contracting party to the GATT had not been an issue since the early 1950's. At that time, the United States declared that it would vote for the accession of the Philippines but availed itself of article XXXV of the GATT, which permits nonapplication of the General Agreement between particular contracting parties when either party becomes a contracting party. 1/

The United States was the Philippines' chief trading partner and the chief foreign market for some Philippine products. Each country's preferential tariff treatment of the imports from the other country continued as provided for in the revised trade agreement. 2/ It established schedules for progressively increasing the proportion of applicable duties--from 5 percent in 1956-58 to 80 percent in 1971-73

1/ See George Reeves, Tariff Preferences for Developing Countries, U.S. Tariff Commission, Staff Research Studies, 1971, p. 127.

2/ Reciprocal preferential arrangements between the United States and the Philippines have been in effect since 1899, see e.g., Reeves, pp. 124-132.

on U.S. imports of Philippine articles and from 25 percent in 1956-58 to 90 percent in 1965-73 on Philippine imports of U.S. articles, full duties to be imposed by both countries during the last 6 months of the life of the agreement. Accordingly, in 1970 Philippine articles as defined in the Tariff Schedules of the United States were subject to 60 percent of applicable U.S. duties and U.S. articles that entered the Philippines were subject to 90 percent of applicable Philippine rates.

The revised trade agreement also provided for absolute quotas on U.S. imports of some Philippine products, notably sugar, and declining duty-free quotas on other products. The sugar quotas were, however, without prejudice to any increase the U.S. Congress might allocate to the Philippines in the future. In fact the higher annual quotas set by the U.S. Sugar Act determined the level of U.S. imports of Philippine sugar, for which the United States has been virtually the only foreign market. Most U.S. imports of sugar entered under a special quota system at prices based on domestic prices. The United States was not participating in the International Sugar Agreement, which went into effect in 1969. Nineteen seventy was a year of rising sugar prices, perhaps largely in consequence of operation of the new international agreement.

¹/ These quotas were administered by the Secretary of Agriculture as provided in the Sugar Act of 1948; in 1965 this act was amended and extended through 1971.

Exports of cotton textiles by the Philippines to the United States have been subject to a separate agreement since 1964. In November 1970 the agreement that entered into force on January 1, 1968, was amended and extended through December 31, 1973.

The U.S.-Philippine agreement as revised provided that consultations concerning termination of the agreement should be held between the two governments not later than July 1, 1971. No such consultations were held in 1970.

Agreements under reciprocal trade agreements legislation

During 1970, one of the six remaining trade agreements concluded during the period after the Trade Agreements Act of 1934 was enacted and January 1, 1948, when the GATT entered into force, was terminated. This was the agreement with Iceland, which country had become a contracting party to the GATT in 1968. The five bilateral agreements in force at the close of 1970 are noted below by partner country.

Argentina.--After Argentina fully acceded to the GATT in 1967, the 1941 bilateral trade agreement with the United States was amended so as to keep the agreement in effect until schedule XX (a consolidated schedule of GATT-U.S. concessions) "shall have been completed and proclamation thereof by the President of the United States shall have become effective." At the close of 1970, this schedule had not been completed and the bilateral agreement continued in force.

El Salvador, Honduras, and Paraguay.--The schedules of U.S. concessions and relevant provisions were terminated in the early 1960's,

but the bilateral agreements with these three countries continued in force.

Venezuela.--The reciprocal trade agreement signed in 1939 and the supplementary trade agreement signed in 1952 continued in force.

International Commodity Agreements and Arrangements

A number of international marketing agreements and arrangements were in operation in 1970, and many intergovernmental study groups were following movements in international markets. Systematic attempts to order international commodity markets, particularly primary commodities, have been made since the first part of the twentieth century; such agreements vary in form, but all attempt to find a solution for regulating supply. The GATT proscribed, at least in principle, the use of quantitative restrictions. Article XI generally provided for elimination of such restrictions, but article XX provided that nothing in the General Agreement was to prevent adoption or enforcement of measures undertaken under inter-government commodity agreements conforming to criteria submitted to

and not disapproved by the Contracting Parties. ^{1/} In the period since part IV was added to the GATT in 1965 and the United Nations Conference on Trade and Development (UNCTAD) was established as a permanent body, both chiefly because of the special economic problems of developing countries, some of the consultation and negotiation has been done through the United Nations.

In 1970 the United States was participating in two international commodity agreements, those concerning coffee and grains (wheat), and continuing participation in the international arrangement regarding cotton textiles, dating from the early 1960's. Coffee, wheat, and textiles are discussed below.

Coffee

Coffee, for many years a leading earner of foreign exchange for several developing countries, is also a leading import product of the United States--the annual value of imports has ranged around \$1 billion. The share of the coffee market accounted for by the United States has been declining in recent years, however: in 1970, the United States took about 37 percent of total world imports, considerably less than its 52-percent share in the early 1960's, whereas Europe's share increased to about 50 percent. With respect to green coffee, U.S. imports in 1970 were somewhat below 1969 and well below 1968, a peak year;

^{1/} "The General Agreement, since it was not intended to be a comprehensive commercial policy instrument but merely a limited agreement on tariffs and certain trade barriers, does not contain any of the ITO provisions on commodity agreements" (John H. Jackson, World Trade and the Law of the GATT, Bobbs-Merrill Co., 1969, p. 722.)

about 60 percent originated in Latin America, of which 24 percent came from Brazil 1/ and 13 percent came from Colombia. In 1970 the U.S. wholesale price index (1957-59=100) for coffee (excluding instant coffee) was 20 percent above 1969, a new high.

Nineteen seventy was the second year of operation of the International Coffee Agreement of 1968 (ICA), which had continued in modified form the coffee agreement of 1962--the first such agreement. The ICA, scheduled to run for 5 years ending September 30, 1973, was subscribed to by 41 coffee producing countries and 21 coffee importing countries, including the United States. It aimed not only to alleviate the hardships stemming from surpluses and volatile prices in the short run, but also to move toward rationalizing production and demand.

1/ In 1970 the Federal Maritime Commission found that some U.S. shipping lines in U.S.-Brazilian trade had been granting rebates to Brazilian exporters shipping to the United States. To curb this practice, the Government of Brazil in May 1970 decreed that coffee cargoes to the United States would be allocated on a percentage basis, the shares of the United States and Brazil to be 40 percent each and those of all other countries together, 20 percent.

Under the ICA, prices would be maintained not below certain levels by means of allotting to producing members export quotas for each coffee year (October through September). Quotas were to be based on dollar prices--an important aspect of the arrangement in view of exchange-rate problems--and could be changed in response to the movements of a daily composite price for all coffees as it related to US 52 cents per pound. During 1970, as in several previous years, the International Coffee Council, which administered the agreement, exercised a special provision permitting use of a flexible system of selective quotas in response to current market conditions: annual and quarterly quotas previously set for four principal types of coffee might be changed whenever daily prices remained for 15 days below or above established floor or ceiling prices. Some downward adjustments were made toward the end of the year, when demand weakened and prices sagged following a period of rising prices and quota increases, but on balance, 1970 was a year of firmer prices and higher revenues for exporting countries.

Overall exports were lower in 1970, however, than in 1968 and 1969, but harvests had been smaller in Brazil where crops had suffered from frost and drought. Trade in soluble coffee processed in coffee-growing countries, chiefly Brazil, increased significantly in 1970, but output was still relatively very small. One of the articles of the coffee agreement prohibited discriminatory treatment by governments in favor of their exports of processed coffee. In 1970, a U.S. complaint was

pending that a levy of export taxes by Brazil on green coffee but not on soluble coffee violated this provision; the United States contended that Brazilian-processed instant coffee was thereby being given a competitive advantage in foreign markets.

The ICA called for setting up production goals and establishing a fund to finance a program to assist producing countries in diverting resources from coffee production to other uses. Exporting countries were to be required to contribute to this diversification fund and other countries might participate in it; the United States offered to loan \$15 million and up to \$15 million additional to match contributions from other importing countries, the funds to be administered within the provisions adopted for such loan activities. As of October 1970, plans of 15 countries had been approved and six countries had received loans to finance plans and projects; at the end of the year, diversification projects proposed by eight countries--Brazil was one--had been submitted. 1/

1/ Not until early 1971, however, was the first loan for an actual development project made--an interest-free loan to Kenya for livestock development.

Grains:

The International Grains Arrangement (IGA) of 1967 was nearing the end of its 3-year statutory life in 1970, and the International Wheat Council (IWC) was looking for a way out of international marketing problems. Fully effective from July 1968, the IGA comprised two legal instruments, the Wheat Trade Convention and the Food Aid Convention. The wheat convention was essentially a modified extension of the International Wheat Agreement of 1949 (IWA) which, according to the preamble to the IGA, had been revised, renewed, or extended in 1953, 1956, 1959, 1962, and 1966. ^{1/} The arrangement of 1967 was for the most part worked out in Rome under the joint auspices of the IWC--a continuing governing body and forum for consultation and negotiation--and UNCTAD.

Except for mainland China, all major exporting and/or importing countries were among the signatories to the Wheat Trade Convention. The European Economic Community, as well as its member states, was represented and the convention specifically provided that the prices at which the European Community would make wheat available to importing members of the convention would be not greater than established maximum prices. Instead of a single base price as had been used in the past, the convention established minimum and maximum prices for 14 major wheats, of which three were United States and three Canadian. The food convention concerned other grains besides wheat and committed

^{1/} The text of the International Grains Arrangement, 1967, was published in U.S. Congress, House, Committee on Ways and Means, Foreign Trade and Tariff Proposals, Hearings, 1968, pt. 1, pp. 394-437.

participating countries to giving 4.5 million metric tons a year of wheat, coarse grains, or the cash equivalent, to developing countries; the 42-percent share of the United States was to be fulfilled under the Public Law 480 program.

At the end (July 31) of the 1969-70 crop year, the second year the IGA was in operation, market conditions were depressed; carryover stocks of five major producing countries were high, prices were declining, and the IGA price mechanism was about to break down. Average export prices for the 1969-70 crop year were lower than the average for the five crop years 1963/64-1967/68. In September 1969, sales had started to be made at prices below set minimums and subsequently Australia, Canada, and the United States--three major exporting countries--instituted measures to restrict production. In the United States, wheat acreage allotments in 1970 were some 43.5 million acres, compared with actual acreage of almost 59 million acres about three years earlier. (The United States is estimated to have accounted for 13-14 percent of world output of wheat in the 2-crop-year period 1969-71, and for about a third of world exports of wheat and wheat flour during approximately the same period.) Furthermore, the European Community was subsidizing exports of most basic agricultural commodities at very high rates. A survey of these subsidies indicated that, under the Community's common agricultural policy (CAP), the maximum export subsidies applicable to soft wheat and hard wheat as of January 1, 1970 were 114 percent

and 61 percent, respectively, of the average world price (c.i.f. Rotterdam). ^{1/} During 1970, however, prices improved and export volume increased, apparently in consequence of lower production and rising prices of other grains.

To meet competition in foreign markets, the U.S. Agricultural Act of 1970 provided for payments to exporters when domestic prices exceeded corresponding foreign prices. It also provided that, through the Commodity Credit Corporation, credit could be made available to private U.S. firms, which in turn could be extended to foreign buyers at a somewhat higher rate.

As of June 30, 1970, the IWC comprised 45 members, with votes distributed as follows:

<u>Exporting countries</u>	<u>Votes</u>
Argentina-----	124
Australia-----	124
Canada-----	299
European Economic Community-----	124
Greece-----	5
Kenya-----	5
Mexico-----	5
Spain-----	5
Sweden-----	10
United States-----	299
Total-----	1,000

^{1/} Grace W. Finne, "EC Export Payments or Restitution," in papers submitted by Professors Sorenson and Hathaway to the U.S. Commission on International Trade and Investment Policy (Williams Commission), Washington, 1971.

Importing Countries

<u>Votes</u>		<u>Votes</u>	
Austria-----	2	Japan-----	211
Barbados-----	1	Korea, Republic of-----	10
Bolivia-----	6	Lebanon-----	8
Costa Rica-----	4	Libya-----	5
Cuba-----	1	Netherlands <u>1</u> /-----	2
Denmark-----	3	Nigeria-----	7
Dominican Republic-----	3	Norway-----	16
Ecuador-----	2	Pakistan-----	19
El Salvador-----	3	Peru-----	28
European Economic Community-----	218	Portugal-----	20
Finland-----	1	Saudi Arabia-----	10
Guatemala-----	4	South Africa-----	16
India-----	38	Switzerland-----	23
Iran-----	9	Trinidad and Tobago-----	6
Ireland-----	10	Tunisia-----	2
Israel-----	6	United Arab Republic (Egypt)-----	20
		United Kingdom-----	252
		Vatican City-----	1
		Venezuela-----	34
		Total-----	1,000

Representatives of Argentina, Australia, Canada, the European Community, Japan, Mexico, Switzerland, the United Arab Republic (Egypt), the United Kingdom, the United States, and of two nonmembers, Brazil and U.S.S.R., 2/ worked out preliminary proposals for a new agreement to replace the IGA, which was to expire June 30, 1971. A single top-quality reference wheat was expected again to be used as

1/ With respect to the interests of Netherlands Antiles and Surinam.

2/ These two countries had been parties to the wheat agreement of 1962 and were to accede to the International Wheat Agreement of 1971.

a base for determining prices. Following its 49th session, held in the fall of 1970, the wheat council requested UNCTAD to convene a conference early in 1971 to negotiate a new agreement. 1/

Textiles

World exports of textiles, including clothing, increased greatly in 1970. In terms of current dollars, however, the rate of increase was less than in 1968 and 1969, although wholesale prices of textiles were rising at much higher rates than in previous periods. Estimates of net trade in textiles (including clothing) of the United States, Japan, and the European Community (EC) for the years 1968, 1969, and 1970 are given below (in millions of dollars): 2/

	<u>1968</u>	<u>1969</u>	<u>1970</u>
United States-----	-1,103	-1,324	-1,572
European Community:			
All member states with non-EC			
countries-----	1,415	1,313	1,411
Japan-----	1,660	1,896	1,891

Note.--For the United States, both imports and exports are f.o.b.; for the EC and Japan, imports are c.i.f. and exports, f.o.b.

1/ The International Wheat Agreement of 1971 was formulated during the United Nations Wheat Conference, 1971, held in Geneva. It entered into force for all provisions on July 1, 1971, and definitively for the United States on July 24, 1971. Like the IGA, it consisted of a wheat convention and a food aid convention; it set no prices, however, because agreement could not be reached on one or more reference wheats.

2/ Based on recorded national statistics from various sources as published by the GATT (GATT, International Trade, 1970, Geneva, 1971, pp. 75-78.)

Textiles is one of the commodity groups in which the substantial U.S. "export bulge" that developed after World War II has been lost, according to Branson and Junz. ^{1/} Based on their analysis of commodity data in terms of end-use categories, from 1950 through the 1960's, exports were virtually flat and imports were growing at an accelerating pace--by 1955 the United States was in deficit in consumer textiles and by 1965, in industrial textiles. The U.S. trade position in consumer textiles and industrial textiles in 1970, based on these data, is shown below (in millions of dollars):

	<u>Exports</u>	<u>Imports</u>	<u>Deficit</u>
Consumer nondurable textiles (except rugs) ^{1/} -----	\$ 247	\$ 1,246	\$ 999
Industrial textile fibers, yarn, and fabric ^{2/} --	674	1,008	334

^{1/} U.S. Department of Commerce, end-use category numbers: exports, 410; imports, 400.

^{2/} U.S. Department of Commerce end-use category numbers: exports, 126; imports, 121 and 1203.

Because of the increase in the use of blends of cotton with other fibers in textile manufacturing, production of and trade in only cotton textiles has in recent years become statistically less clear. Output of cotton textiles in 1970, however, is believed to have declined somewhat in the major producing countries, while continuing to expand in many developing countries. In the case of the United States, exports of cotton yarn and cotton cloth and imports of cotton fabrics declined.

^{1/} William H. Branson and Helen B. Junz, "Trends in U.S. Trade and Comparative Advantage," Brookings Papers on Economic Activity, No. 2, 1971, pp. 285-338.

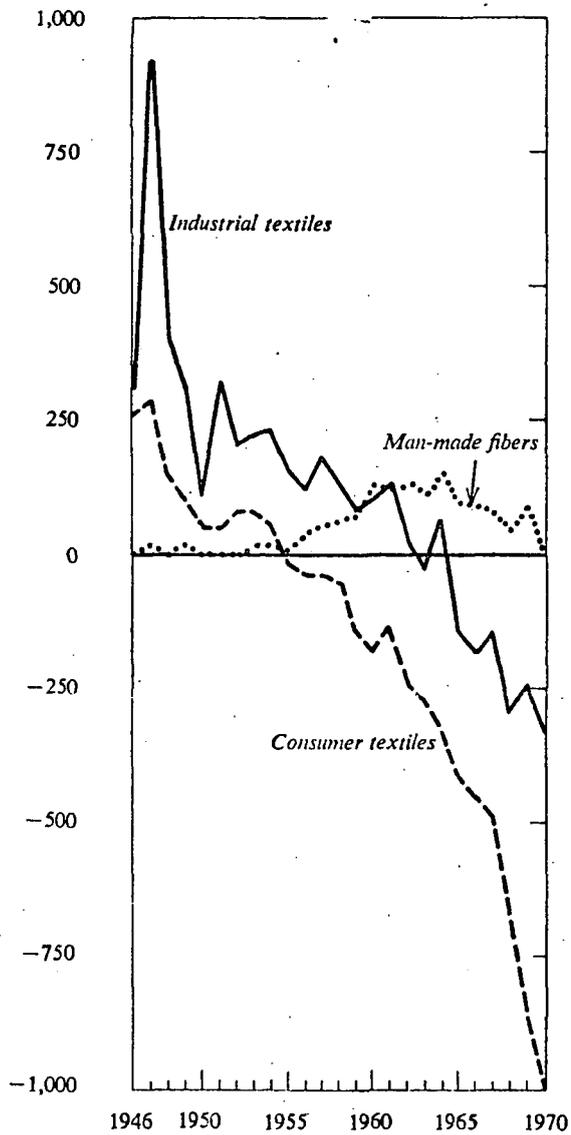
World production of manmade fibers continued to rise in 1970, but at a slower rate than in 1969; of the total quantity of manmade-fiber yarns exported by major producing countries, about two-thirds were of spun fibers and one-third was textured filament. In the United States, there was a sharp rise in imports of manmade-fiber yarns but less of an increase in exports of fabrics, compared with 1969. Manmade fibers have been shown to illustrate a product cycle in which the United States is at first a net exporter, becoming a net importer as production becomes standardized; in 1970 this country was approaching the net importing stage with respect to this trade. 1/

The accompanying chart depicting changes in the U.S. trade balance in industrial textiles, consumer textiles, and manmade fibers, 1946-70 by years, was included in the Branson-Junz study.

1/ Branson and Junz, op. cit., p. 319, citing Raymond Vernon, "International Investment and International Trade in the Product Cycle," Quarterly Journal of Economics, Vol. 80, May 1966, pp. 190-207.

U.S. Trade Balance in Textiles and Manmade Fibers, 1946-1970

Millions of \$

Source: Branson and Junz, op. cit., Figure 4 reproduced.

Cotton textiles.--Since 1961 world trade in cotton textiles has moved largely within a network of restraints implemented through bilateral agreements. ^{1/} In 1970 the multilateral long-term arrangement regarding cotton textiles trade, which became effective in October 1962, was still in force. This arrangement had supplanted the preliminary short-term arrangement worked out in 1961 by the United States and other producing countries significantly affected by the great growth in textile industries beginning to take place, particularly in Japan and in the developing countries.

The Long-Term Arrangement.--On June 15, 1970, the United States and the other governments then participating in the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) agreed to open for acceptance a protocol for a second 3-year extension of the arrangement, to run from October 1, 1970 through September 30, 1973.

The original arrangement was negotiated by 19 nations (Hong Kong represented by the United Kingdom)--all were contracting parties to the GATT--for the purpose of dealing with trade problems in cotton textiles. Export restraints would be bilaterally arranged within the multilateral

^{1/} Section 204 of the Agricultural Act of 1956 authorizes the President to negotiate with foreign countries in an effort to obtain agreements for limitations on their exports to the United States with respect to agricultural commodities and textiles; it was amended in 1962 (Public Law 87-488) to provide that in case of a multilateral agreement among countries that account for a significant part of world trade the President may also issue regulations controlling imports of the same article from nonparticipating countries.

framework of the arrangement, which would permit export expansion for developing countries without disrupting markets or production lines in other countries. 1/ The LTA is, however, separate from the GATT and participants need not be contracting parties. It is nevertheless administered by a GATT committee of representatives of participating governments. 2/

In deliberating the question of extending the arrangement for a second 3-year period, the GATT committee took cognizance of the structural changes taking place in the industry, acknowledging the LTA as an instrument for dealing with exceptional and transitional problems; it reported that in several developed countries the use of facilities for providing adjustment assistance for relief in the textile industries had become extensive. The committee had recently studied these problems and intended that further study of international trade in cotton textiles would be undertaken. The committee supported proposals to extend the arrangement beyond September 30, 1970.

The second protocol of extension was accepted by the United States on July 10, 1970. It provided, as had the first such protocol, for overall increases in annual quotas to be distributed as equally as possible over the 3-year period--that is, with respect to the mutually acceptable bilateral agreements permitted under article 4 of

1/ For the background and history of this arrangement, see previous reports of the U.S. Tariff Commission on Operation of the Trade Agreements Program, beginning with the 14th report.

2/ A discussion of the GATT committee's seventh annual review of operation of the LTA is given in Ch. 2. below.

the arrangement.

Before the end of 1970 the European Community (EC) and the following governments had accepted the protocol for the second extension of the LTA:

Australia	Greece	Poland
Austria	India	Portugal
Belgium	Italy	(including Macao)
Canada	Jamaica	Spain
China, Republic of	Korea	Turkey
Colombia	Luxembourg	United Arab
Denmark	Mexico	Republic (Egypt)
Finland	Netherlands (European	United Kingdom
France	territory)	(including Hong Kong)
Germany, Federal Republic of	Norway	United States
	Pakistan	

All signatories in 1970 were contracting parties to the GATT, except for the Republic of China, Colombia, and Mexico. ^{1/}

The decision of the council of the EC to accept the protocol for the Community as an entity was believed to indicate that it assumed the rights and obligations of the member states. The acceptances of the extension by the United Kingdom and Canada went forward without change in attached reservations--to accept no obligation automatically to expand access to their markets.

The LTA took cognizance of already existing restrictions on imports but ruled against new restrictions inconsistent with provisions of the GATT. LTA articles 3 and 4 dealt with new restrictions. Article 3 permitted participating governments to request exporting

^{1/} Japan accepted this protocol in October 1971 and Israel, in May 1972.

countries (whether or not participating in the LTA) to limit shipments of particular cotton products causing or threatening market disruption; if in 60 days exporting countries had not consented to some arrangement to alleviate the problem, the requesting country might impose temporary restraints. 1/ But more significant in terms of trade effects, was article 4, which stated explicitly that nothing in the arrangement should prevent application of mutually acceptable arrangements not inconsistent with the objectives of the LTA--thus permitting bilateral agreements on import and export quotas.

In 1970, limitations on annual shipments to the United States agreed to under bilateral agreements exceeded by far the restraints imposed under article 3--restraints intended to be used only sparingly. The bilateral agreements generally provided for percentage increases in already established quantity limitations or set up new ones on products not previously considered disruptive in U.S. markets; they contained provisions for consultation and exchange of statistics. In all of these bilaterals the textiles covered were designated by category number. 2/

1/ LTA article 6(c) supplemented article 3 and provided that restraints on exports of participating countries should not be more severe than those on exports of nonparticipating countries.

2/ Cotton textiles were defined in the LTA as including yarns, piece goods, madeup articles, garments and other textile manufactured products in which cotton represented more than 50 percent by weight of the fiber content--any country applying a criterion based on value being free to continue to use that criterion; for administrative purposes, textiles have long been classified under 64 product categories in three groups, beginning with carded yarns and running through final products, as follows: Group I, yarns (categories 1 through 4); Group II, fabrics (categories 5 through 27); Group III, madeup apparel and miscellaneous goods (categories 28 through 64).

During 1970, restraints imposed through U.S. action under articles 3 and 6(c) of the LTA with respect to imports from Argentina, Brazil, British Honduras, Hungary, Malaysia, and Trinidad and Tobago either expired or were incorporated in comprehensive bilateral agreements. New restraints were imposed on imports from Ceylon, Haiti, Israel, and Romania. These countries were not parties to the LTA, but except for Romania, all were contracting parties to the GATT. The following quantitative restraints imposed by the United States under LTA article 3 were in effect at yearend 1970:

<u>Source of imports</u>	<u>12-month period beginning</u>	<u>Product category No. 1/</u>
Ceylon	8-3-70	60
Haiti	8-31-70	39
Israel	10-5-70	44,53,62,63
Romania	1-9-70	49
Romania	1-27-70	50
Romania	2-28-70	55
Romania	3-31-70	53
Romania	7-31-70	19,47
Romania	8-14-70	34
Romania	10-31-70	63

1/ The product descriptions are given in U.S. Department of Commerce, Office of Textiles, Performance Reports of Countries Under Restraint, Cotton Manufactures, August 1971.

The bilateral agreements concerning cotton textiles to which the United States was party in 1970, the periods covered and the quantity limitations, totaling about 1,786 million equivalent square yards, are listed below by trading partner (in millions of equivalent square yards): 1/

	<u>Period</u>	<u>Equivalent square yards</u> (millions)
Brazil	10/1/70-9/30/71	75.0
China, Republic of	1/1/70-12/31/70	74.8
Colombia	7/1/70-6/30/71	34.8
Costa Rica	10/1/70-9/30/71	3.2
Czechoslovakia	5/1/70-4/30/71	2.6
Greece	7/1/70-6/30/71	9.6
Hong Kong	10/1/70-9/30/71	429.8
Hungary	8/1/70-7/31/71	4.2
India	10/1/70-9/30/71	110.0
Italy	1/1/70- 1/1/71	2.1
Jamaica	10/1/70-9/30/71	26.0
Japan	1/1/70-12/31/70	411.3
Korea, Republic of	1/1/70-12/31/70	38.7
Malaysia	9/1/70-8/31/71	20.0
Malta	1/1/70-12/31/70	14.7
Mexico	5/1/70-4/30/71	86.8
Nansei Nanpo (Ryukyu Islands)	10/1/70-9/30/71	14.8
Pakistan	7/1/70-6/30/71	85.0
Philippines	1/1/70-12/31/70	54.6
Poland	3/1/70- 2/28/71	6.4
Portugal	1/1/70-12/31/70	120.2
Singapore	1/1/70-12/31/70	39.7
Spain	1/1/70-12/31/70	44.5
Turkey	7/1/70- 6/30/71	3.7
United Arab Republic (Egypt)	10/1/70-9/30/71	52.5
Yugoslavia	1/1/70-12/31/70	20.7

1/ The terms of these bilateral agreements and the product categories covered are summarized in U.S. Department of Commerce, op. cit., for May 1971 and August 1971.

Other textiles.--By 1970 the problems of changing patterns of international trade in textiles had become acute for both exporting countries and importing countries. At an informal meeting of representatives of the United States, the European Community, the United Kingdom, and Japan, held in Geneva on July 31 and August 1, 1970, the proposal was made to establish a working party to study the situation in the textile sector, as such, including wool and manmade fibers. 1/

No action toward instituting a multinational arrangement to regulate trade in other-than-cotton textiles was taken in 1970. In the latter part of the year, however, the United States and Malaysia negotiated the first of a number of bilateral arrangements covering exports of noncotton textile products to the United States. 2/ Under this agreement, Malaysia's exportation of wool and manmade-fiber textile products to the United States would be limited for a 4-year period beginning September 1, 1970. During the first year of the agreement, such textile products in five product categories would be

1/ A special GATT study of overall textile problems was authorized in 1972, following agreement on a proposal to set up a fact-finding committee.

2/ The United States subsequently signed four more such agreements--5-year agreements with Hong Kong, Korea, and the Republic of China, and a 3-year agreement with Japan, concerning wool and manmade-fiber textiles--which became effective on October 1, 1971. When the three 5-year agreements were signed, the participating countries also entered multilateral agreements concerning market access in each participating country and providing for steps to limit disruptive imports from nonparticipating countries.

subject to an overall limit equivalent to 5 million square yards. 1/

U.S. Import Programs

During 1970, restraints on U.S. imports of steel and meat were maintained through quantity limitations on exports arranged with foreign suppliers. 2/ Unlike the controls set within the framework of international arrangements, these restraints were worked out independently--the voluntary steel arrangement, with steel producers in Japan and Europe and the meat restraint program, through government-to-government agreements. Such measures for relieving pressures from import competition were considered to be much more flexible than legislated controls or multilateral arrangements.

Steel: voluntary steel arrangement

For the 3-year period 1969-71, restraints on exports of steel mill products to the United States were voluntarily agreed to by the steel producers of Japan and the European Coal and Steel Community (ECSC). Letters of intent were forwarded in December 1968 to the Secretary of State by the Chairman of Japan's iron and steel exporters' association and the associations of steel producers of the ECSC. 2/ At that time, U.S. imports of these products represented about 17 percent of U.S. market supply--some 108 million short tons in 1968;

1/ Since wool textiles were not being produced in Malaysia, the specific limits set forth in the agreement actually applied to manmade-fiber textiles.

2/ Such arrangements are not officially part of the U.S. trade agreements program but relate to it, particularly with respect to the GATT.

3/ The texts of these communications were published in Department of State, Bulletin, Feb. 3, 1969, pp. 93-94.

about 80 percent of the imports were products of Japan and the ECSC. Stated in these bilateral understandings were assumptions that in 1969 total exports to U.S. markets from all foreign sources would not exceed approximately 14 million tons, with annual increases of 5 percent in each of the years 1970 and 1971; that attempt would be made to maintain the prevailing product mix of imports; that no increase in duties or new restrictions on imports of these products would be imposed by the United States--and that these agreements would not infringe on any U.S. laws and would conform to international laws.

In 1970, as in 1969, U.S. imports of steel mill products did not exceed agreed-on limitations and were in fact considerably below the 1968 level; in each year, imports accounted for about 13 percent of U.S. market supply. It was a year of strong demand in Europe. It should be noted that U.S. exports in these years were considerably above previous levels. By the end of 1970 the U.S. industry was becoming clearly more concerned about the inroads being made by foreign specialty steels and fabricated structures than about the overall impact of all steel imports. Subsequently, limitations on specific steel products were to be sought by domestic producers.

Meat restraint program

With enactment of Public Law 88-482 in 1964, 1/ a policy concerning acceptable levels of U.S. imports of certain meats--at about 5 percent of domestic output--was established: imports should not exceed a restraint level specified for each calendar year, such level to take into account change in domestic production and growth of the market; when imports were likely to equal or exceed 110 percent of specified levels, the President might by proclamation limit aggregate imports to the restraint level and quotas would be allocated to the supplying countries according to respective market shares in a representative period. Aggregate import limits might, however, be suspended or revised upward by the President whenever the interests of the economy or of national security overrode--these included the economic wellbeing of the domestic livestock industry; when supplies were inadequate to meet domestic demand at reasonable prices; or when trade agreements ensured that this Congressional policy was being carried out.

Restraints on imports of fresh, chilled, or frozen cattle meat and meat of goats and sheep (except lambs) went into effect in 1968, and bilateral agreements embodied in exchanges of notes were worked out between the Government of the United States and the governments of meat supplying countries, setting limitations on the export of these meats to the United States. In 1970, agreements were signed with Australia, Costa Rica, Dominican Republic, Guatemala, Haiti, Honduras, Ireland, Mexico

1/ Between 1961 and 1964, U.S. production and imports of beef had been rising faster than demand, causing a precipitous drop in wholesale prices (Donald Pryor, "Livestock: The Road to Market," Finance and Development, Nov. 1970, p. 25.)

New Zealand, Nicaragua, and Panama. Agreements were not concluded with Canada or the United Kingdom, however, except to prohibit transshipments from Australia, New Zealand, and Ireland.

In 1970, projected U.S. imports exceeded for the first time the calculated restraint level. At midyear the President by proclamation suspended the restraint limitation and the quotas these imports had triggered and by Executive order delegated the authority to negotiate agreements concerning imports of these meats to the Secretary of State, with concurrence of the Secretary of Agriculture and the Special Representative for Trade Negotiations. ^{1/} Authority for such Executive actions derives from section 204 of the Agricultural Act of 1956, which permits the President to negotiate with foreign governments for agreements to limit exportation to the United States of any agricultural commodity (or textile product), and permits him to issue regulations governing entry from nonparticipating countries if a multilateral agreement exists among countries accounting for a significant part of world trade in the articles concerned (see textiles, above). The restraint level was thereby raised from about 1,062 million pounds to 1,140 million pounds; imports for the full year totaled 1,170 million pounds, however--somewhat higher than projected and about 90 percent higher than the quantity recorded for 1965, the year Public Law 88-482 became effective. (These import statistics, compiled by the U.S. Department

^{1/} Presidential Proclamation 3993, effective June 30, 1970; Executive Order 11539, dated June 30, 1970.

of Commerce, include receipts of meat from Canada and the United Kingdom, countries that do not participate in the program.)

Customs Cooperation Council

On November 5, 1970, the Convention Establishing a Customs Cooperation Council and Protocol concerning the European Customs Union Study Group, done at Brussels on December 15, 1950, entered into force for the United States.^{1/}The Council, based in Brussels, was set up to administer the Brussels Nomenclature for the Classifications of Goods in Customs Tariffs (BTN), which had been developed by the European Customs Union Study Group. U.S. accession to this convention had been approved by the President, on advice by the Senate, on October 8, 1968, to become effective on the date the instrument was deposited. ^{2/}

Accession to the customs council was a condition for accession to two related international agreements, also opened for signature on December 15, 1950-- the Convention on the Valuation of Goods for Customs Purposes and the Convention on the BTN. In 1970 The United States had not acceded to either of these conventions. According to

^{1/} The United States acceded with a reservation relating to the extent of privileges and immunities generally accorded to international organizations under U.S. law.

^{2/} The instrument of accession was deposited on November 5, 1970 and the action was proclaimed by President Nixon on March 1, 1971 (U.S. Department of State, U.S. Treaties and Other International Agreements, TIAS 7063.).

the terms of the convention that established it, the functions of the customs council included inter alia examining "the technical aspects, as well as the economic factors" relating to customs matters "with a view to proposing to its members practical means of attaining the highest possible degree of harmony and uniformity," and "to make recommendations to ensure the uniform interpretation and application of the Conventions concluded as a result of its work as well as those concerning the Nomenclature for Classification of Goods in Customs Tariffs and the Valuation of Goods for Customs Purposes. . . ."

By 1970 the BTN was being applied by many nations, some of which had not acceded formally to the convention, including EFTA countries, and Japan, and had been adopted for the common external tariff of the European Communities. 1/

1/ The origins, characteristics, and application of the Brussels Tariff Nomenclature are described in Customs Cooperation Council (Brussels), Document 15.540, February 1, 1970; for further historical background, see e.g., Howard L. Friedenber, The Development of a Uniform International Tariff Nomenclature From 1953 to 1967 With Emphasis on the Brussels Tariff Nomenclature, U.S. Tariff Commission, TC Publication 237, 1968, p. 45.

Chapter 2.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE

The GATT as an Organization: Membership, Budget and Program

The General Agreement on Tariffs and Trade (GATT), entered into in 1947 by the United States and 22 other governments, was to be a contractual framework for the conduct of international trade. Production and exchange of goods would be expanded through "reciprocal and mutually advantageous arrangements" directed to reducing tariffs and other trade barriers and eliminating discriminatory treatment in international commerce. Bilateral agreements and preferential arrangements would give way to multilateral nondiscrimination, but regional free trade would be permitted. In 1970 the nations that subscribed fully or provisionally to the General Agreement accounted for virtually all international trade carried on among countries with market economies (and also for the trade of Poland with other contracting parties). During the year, the United Arab Republic (Egypt) which some 8 years earlier had acceded provisionally to the GATT, and Mauritius, by virtue of its independence in 1968, formally became contracting parties. This brought to 78 the number of full contracting parties (Hong Kong not separately considered). 1/ Only Tunisia was in provisional status, such status, which dated from 1959, having been extended through 1970 by a sixth proces-verbal. 2/

1/ Contracting parties means those governments applying provisions of the GATT by acceptance or by accession; the phrase is written with initial capitals in reference to the contracting parties in joint action.

2/ Tunisia's provisional accession was extended through 1971 by a seventh proces-verbal, signed on Dec. 2, 1970.

Fourteen other autonomous governments were reported as applying GATT rules in fact, pending decisions on modifying their foreign commercial policy: thirteen, by virtue of having been territories of and sponsored by governments that had originally accepted the General Agreement (Belgium, France, the Netherlands, and the United Kingdom), as provided in article XXVI, and Cambodia, whose protocol for accession was opened for signatures in 1962 under the normal accession conditions as provided in article XXXIII but had not been entered into force. At the end of 1970, the 93 countries applying provisions of the GATT were as follows: 1/

1/ The Republic of China, Lebanon, Liberia, and Syria withdrew from the GATT during the early 1950's.

Full contracting parties:

Argentina	Ghana	Nigeria
Australia	Greece	Norway
Austria	Guyana	Pakistan
Barbados	Haiti	Peru
Belgium	Iceland	Poland
Brazil	India <u>1/</u>	Portugal
Burma	Indonesia	Rhodesia
Burundi	Ireland	Rwanda
Cameroon	Israel	Senegal
Canada	Italy	Sierra Leone
Central African Republic	Ivory Coast	South Africa
Ceylon <u>1/</u>	Jamaica	Spain
Chad	Japan	Sweden
Chile	Kenya	Switzerland
Congo (Brazzaville)	Korea, Republic of <u>1/</u>	Tanzania
Cuba	Kuwait	Togo
Cyprus	Luxembourg	Trinidad and Tobago
Czechoslovakia	Madagascar	Turkey
Dahomey	Malawi	Uganda
Denmark <u>2/</u>	Malaysia	United Arab Republic (Egypt)
Dominican Republic	Malta	United Kingdom <u>3/</u>
Finland	Mauritania	United States <u>3/</u>
France <u>3/</u>	Mauritius	Upper Volta
Gabon	Netherlands <u>3/</u>	Uruguay
Gambia	New Zealand	Yugoslavia
Germany, Federal Republic of	Nicaragua	
	Niger	

Acceded provisionally:

Tunisia

De facto application of the GATT with respect to trade with contracting parties:

Algeria	Fiji	Southern Yemen
Botswana	Lesotho	Swaziland
Cambodia	Maldiv Islands	Tonga
Congo (Kinshasa) <u>4/</u>	Mali	Zambia
Equatorial Guinea	Singapore	

1/ With reservation (the subject of reservations to the GATT is treated in Jackson, *op. cit.*, pp. 71-73).

2/ Including Greenland and Faroe Islands.

3/ Including overseas territories.

4/ Name subsequently changed to Zaire.

Thus in 1970 the GATT was being applied by the industrially developed countries with market economies, many nations with developing economies, and two members of the Council of Mutual Economic Assistance (COMECON), Czechoslovakia and Poland. 1/ Of the "communist-dominated countries," as defined in the Tariff Schedules of the United States, the United States was extending most-favored-nation treatment only to Poland and Yugoslavia. (U.S. obligations to Czechoslovakia under the GATT were suspended in 1951.) During the year, applications for the accession of Romania, Hungary, Colombia, and the Democratic Republic of the Congo (subsequently, the Republic of Zaïre) were examined by working parties of the GATT, but no negotiations were completed.

The organization with fundamental responsibilities that developed around this instrument for conduct in international trade, subscribed to through the years by a growing number of governments, has been financed mainly by contributions made according to the size of the foreign trade of its members--the contracting parties and associated governments. The U.S. contribution, by far the largest, and the shares of the four next largest contributors to the relatively small GATT budget for 1970, based on estimated total contributions of \$3.5 million

1/ Through COMECON, the long-range economic plans of the U.S.S.R. and other countries with Soviet-type economies have been coordinated. In July 1970, the International Investment Bank with headquarters in Moscow, was established to facilitate economic integration of these countries - the U.S.S.R., East Germany, Poland, Bulgaria, Czechoslovakia, Hungary, Rumania, and Mongolia.

were (in percent): 1/

United States	16.4 percent
West Germany	10.6
France	6.5
Japan	5.8
Canada	5.6

For 1962, the year the U.S. Trade Expansion Act was enacted, the shares of the five largest contributors to the budget, based on estimated total contributions of \$1.1 million, were: United States, 16.7 percent; United Kingdom, 14.6 percent; West Germany, 9.1 percent; France, 6.5 percent; and Canada, 5.6 percent--Japan's share was 3.5 percent. U.S. contributions have been made from funds appropriated for use by the Department of State for international conferences and contingencies, rather than from funds specifically appropriated.

By 1970, the five-year staging of the tariff reductions negotiated in the 1964-67 trade conference in Geneva (the Kennedy Round) had passed midpoint. 2/ The third step of the five-step reductions became effective on January 1, 1970. Some countries--Argentina, Canada, Iceland, Ireland, and Switzerland--had applied all or most of the full

1/ The budget for 1970, including the contribution to the International Trade Center, a project sponsored jointly with UNCTAD since 1968, totaled \$3.7 million.

2/ The Kennedy Round was the sixth general international trade conference held under the GATT aegis, in which the Contracting Parties attempted to develop a satisfactory system for lowering tariffs multilaterally. (Previous conferences had been held at Geneva in 1947, at Annecy in 1949, at Torquay in 1951, at Geneva in 1955, and at Geneva--the Dillon Round--in 1960-61.)

A special chapter on the Kennedy Round and its accomplishments was included in U.S. Tariff Commission, Operation of the Trade Agreements Program, 1967, 19th Report, 1969.

reductions in advance; no major defaults are believed to have occurred. 1/ The United States had not, however, acted on the matter of abolishing its system of customs valuation for chemicals and some other products, known as the American selling price system (ASP). 2/

In opening the 26th session of the contracting parties held in February 1970, the chairman referred to the importance the Kennedy Round had been as an impetus to trade expansion in the 1960's and characterized the growth of regional economic integration during the previous decade as a phenomenon. 3/ He called for outward-looking trade policies on the part of trade groupings and a breakthrough in the efforts of the contracting parties to deal with the trade problems of the developing world--at a time when he believed the GATT was developing a determined assault on nontariff barriers to trade in both industry and agriculture. The needs of developing countries had been well to the fore in GATT discussions since the findings of the Haberler report

1/ The rates, listed by U.S. tariff item, giving effect to the U.S. concessions granted in the 1964-67 trade conference, as contained in schedule XX (the U.S. schedule) annexed to the Geneva (1967) protocol to the GATT, were published by the Office of the U.S. Special Representative for Trade Negotiations, Washington, in November 1967.

2/ In 1967, an agreement relating principally to chemicals was entered into by the Governments of Belgium, France, Italy, Switzerland, the United Kingdom, the United States, and the European Economic Community. Entry into force of this agreement, which was supplementary to the Geneva (1967) protocol to the GATT, was conditional upon elimination of the ASP by the United States--the necessary U.S. legislation to be sought as promptly as possible--at a date to be no later than January 1, 1969, unless otherwise agreed. Agreement to extend this date has been made in each subsequent December; the extension agreed to in December 1971 will expire on January 1, 1973.

3/ The preceding session had been held in November 1968. GATT rules provided for sessions of the contracting parties to be held from time to time, the date on each session to be fixed at the preceding session; sessions might also be held on the initiative of the chairman or at the request of a contracting party concurred in by the majority of the contracting parties. A chronology of these meetings is given in Jackson, op. cit., Appendix H.

in 1958, 1/ but growth in the trade of these countries had lagged well behind that of industrialized countries. The chairman looked for more activity in the field of international monetary policy and for more collaboration between the GATT and the International Monetary Fund (IMF). 2/

The U.S. Special Representative for Trade Negotiations expressed the view during the session that agricultural trade must come to the forefront of the work of the contracting parties and that a degree of success in this area might well be essential to the future viability of the GATT itself. He described current U.S. policy and administration proposals with respect to agricultural problems, urging the contracting parties to find a way to curb the extravagant use of export subsidies and price supports. 3/

In a statement of conclusions, adopted on February 27, 1970, the Contracting Parties underlined "the major role of past tariff and trade negotiations under the GATT in promoting the continuing expansion of international trade." They also reaffirmed "support for the maintenance of the multilateral trading system and their determination to move progressively towards the further reduction of trade barriers."

1/ Contracting Parties to the GATT, Trends in International Trade, Geneva, 1958.

2/ Twenty-sixth Session of the Contracting Parties, Opening Statement by the Chairman, Ambassador Sule D. Kolo, Nigeria, February 16, 1970.

3/ Statement by Ambassador Carl J. Gilbert, Special Representative for Trade Negotiations, to the 26th Session of the Contracting Parties.

Throughout 1970, the operational work of the GATT continued to be structured according to a program for trade expansion, known as the coordinated program of work of the Contracting Parties, inaugurated in 1967. Three standing committees continued in existence--the Committee on Trade in Industrial Products, the Agriculture Committee, and the Committee on Trade and Development; the latter was chiefly concerned with the trade problems of developing countries. The previous GATT program for expanding trade, set up in 1958, had been organized around negotiating for tariff reduction, nontariff measures to protect agricultural products, and the problems of developing countries; activities in these areas were carried on respectively by Committee I, Committee II, and Committee III--Committee III was superseded in 1964 by the Committee on Trade and Development in anticipation of the addition of part IV to the General Agreement, titled Trade and Development, which entered into force in 1966.

By yearend the basic work for a GATT data bank for tariffs and for nontariff barriers to trade (NTB's) was virtually completed. These were separate projects, responsibility for which had been assigned the Committee on Trade in Industrial Products. They were undertaken in 1967 to provide a technical base for ongoing analysis and subsequent trade conferences--negotiating mandates were expected to be renewed by legislation in the United States, to be granted the EC Commission, and to be available to other contracting parties where needed.

The tariff study comprised three parts: summaries of import data and average duty levels, according to the headings in the Brussels tariff nomenclature, by country; tariff and trade profiles by country, for products in 23 categories and 119 subcategories; and tariff and trade profiles by processing stage. These were planned to be updated and analyzed in terms of tariff rates reflecting the full Kennedy Round reductions. The data necessary for economic analysis of the effects of tariffs and tariff changes would thus be available--in the 1960's, great advances had been made in understanding the impact of tariffs and effective tariff protection. 1/

Work on the NTB's centered on developing an inventory based on information supplied by countries participating in the GATT. Some 80 such barriers were organized into five categories, described as follows:

- (1) Government participation in trade--including production and export subsidies, government procurement practices, state trading, and trade-diverting investment;
- (2) Customs and administrative entry procedures--so-called para-tariff barriers that include valuation procedures, questions of customs classification, antidumping practices, fees, and documentation requirements;
- (3) Standards involving imports and domestic goods--health and safety regulations imposing technical or testing requirements and rules on packaging, labeling or marketing.

1/ A list of publications on effective tariff protection was appended to a GATT publication of 1971 (Herbert G. Grubel and Harry G. Johnson, eds., Effective Tariff Protection, General Agreement on Tariffs and Trade and Graduate Institute of International Studies, Geneva, 1971.)

(4) Specific limitations on imports and exports, such as quantitative import restrictions, bilateral agreements, export restraints and licensing arrangements;

(5) Restraints on imports and exports through the price mechanism, such as prior deposits, variable levies, and fiscal adjustments.

For each of these categories, a GATT working group would make further study and formulate proposals for dealing with the most urgent problems these trade barriers presented for exporters, particularly the developing countries.

Also during the year, the problems of border tax adjustments were reported on by a working party that had been established in 1968 to make a full-scale study of national tax systems and GATT provisions on border tax adjustments. A joint working group of the three standing committees was set up to receive and study notifications of import restrictions maintained by developed countries with a view to eliminating or at least moderating these restrictions, particularly quantitative reductions, through consultation. These are among the activities of GATT in 1970 that are treated in the second chapter of this report. (It is noted that no work relating specially to the trade effects of the multinational corporation was undertaken.)

Dairy products: Arrangement concerning dairy products

In January 1970, an arrangement to regulate international trade in dairy products, developed by a GATT working party set up to study the problems of trade in such products, was agreed to by Australia, Canada, Denmark, the EC and its member states, Japan, South Africa, and the United Kingdom. The Arrangement Concerning Certain Dairy Products entered into force on May 14, 1970 for an initial 1-year period, to be

extended for 1-year periods. It applied only to skimmed milk powder, and to such products as might be added later, providing minimum export prices for skimmed milk powder and lower-than-minimum prices for the powder used as animal feed. The United States ~~did not~~ participate because of concern about the difficulty of administering this derogation. ^{1/} Provision for surplus disposal through food aid by donation or concessional sale to developing countries, in cooperation with the FAO (Food and Agriculture Organization) of the United Nations and other organizations, was considered to have been an important feature of the arrangement.

In the late 1960's stocks of skimmed milk powder, particularly in EC countries, had been mounting, and in 1969 additional subsidies to stimulate the export of powder used for animal feed were granted in the EC. World market prices started to move upward after the dairy arrangement went into effect and by yearend were well above the specified minimum.

The United States, and also Austria and Ireland, participated in the work of a committee of representatives of all participants in the dairy arrangement set up to implement the arrangement. It was a GATT committee serviced by the secretariat of GATT and charged with maintaining up-to-date information on international market conditions, not only for skimmed milk powder, the pilot product, but also for other dairy products.

^{1/} For skimmed milk powder the main producing countries outside the EC were Australia, Austria, Canada, Denmark, Ireland, Japan, New Zealand, South Africa, Spain, Switzerland, United Kingdom, and the United States.

Preferential Tariff Treatment: Greece and U.S.S.R.

In 1970 the GATT council of representatives of contracting parties 1/ denied a request from the Government of Greece for waiver of its most-favored-nation obligation, under article I of the General Agreement. This action was taken after a working party had determined that approval would set an unwanted precedent and encourage non-GATT countries to press for preferential bilateral trading arrangements.

Such a waiver would have permitted preferential tariff treatment of certain products from the U.S.S.R., specified in a special protocol signed by Greece in December 1969, in connection with renewal of the trade agreement between the two countries. The objectives were to encourage, by means of tariff quotas, importation of industrial products from the U.S.S.R., promote exportation of agricultural products by Greece, and reduce Greece's credit balance in the countries' bilateral accounts--a condition of renewal of the trade agreement between the two countries. Greece contended that this would remove the disadvantage for the U.S.S.R. stemming from Greece's associate membership in the European Community, dating from 1961. The GATT council advised Greece either to rescind the protocol or to place the tariff quotas on a most-favored-nation-basis.

1/ The GATT council of representatives of contracting parties, composed of representatives of all members wishing to be represented, was set up in 1960, chiefly to consider matters arising between annual sessions, supervise committees and working parties, and make recommendations to the contracting parties.

GATT Obligations Waived

The Contracting Parties took action in 1970 to continue waiver of certain obligations imposed upon contracting parties by the General Agreement. These were:

Renegotiation of Brazil's tariff schedule;
Renegotiation of Chile's tariff schedule;
Italy's special fiscal treatment for bananas from Somalia;
Uruguay's import surcharge.

Agricultural Products

The GATT Agriculture Committee, set up in 1967 when the GATT coordinated program of work for expanding trade was inaugurated by the Contracting Parties, had been instructed to formulate by the end of 1970 proposals for solving the main problems of trade in agricultural products. Progress toward liberalizing barriers and improving growth rates with respect to trade in agricultural products was considered to have been lagging far behind that being made with respect to other products.

For each of several groups of agricultural products, the committee studied the structure of international markets, national and regional policies affecting production, measures affecting exports, and measures affecting imports. By the end of 1970, the committee had established an inventory of measures affecting imports imposed by major trading countries--barriers besides import duties, such as quantitative restrictions, special levies, health and sanitary regulations--and had

formulated suggestions for solving both long-term and short-term problems 1/

Antidumping

The GATT generally condemned dumping causing or threatening material injury. Article VI of the General Agreement dealt with antidumping and countervailing duties and provided for the levy of such duties after injury has been determined. 2/ At yearend 1970, the United States, the European Community and its member states, Canada, Czechoslovakia, Denmark, Finland, Greece, Japan, Norway, Sweden, Switzerland, the United Kingdom, and Yugoslavia were parties to an agreement to implement GATT article VI. This agreement and an international code to supplement its provisions were negotiated during the Kennedy Round, and in June 1967, an executive agreement that embodied the code was signed by the United States and 17 other nations.

As a signatory to the agreement, the United States subscribed to the international code, but within the provisions of legislation passed in 1968, permitted its application only to the extent it did not conflict with domestic law or limit the discretion of the U.S. Tariff

1/ The GATT provision for eliminating quantitative restrictions, article XI, did not apply to agricultural and fisheries products if import restrictions were necessary to enforce government measures for the marketing or production of domestic products for which imported products could be directly substituted.

2/ Countervailing duties had not been a matter of study in GATT, although the subject was to be considered in the study of nontariff barriers. The U.S. Tariff Act of 1930, section 303, provides for the levy of countervailing duties but does not require a finding of injury--article VI of the GATT provides that no contracting party shall levy antidumping or countervailing duty without first determining injury to domestic industry

Commission in making injury determinations under the Antidumping Act, 1921, as amended--the domestic antidumping law currently in force. Modification of the U.S. antidumping act apparently was not contemplated. Unlike the international code, the U.S. law does not define injury or provide statutory criteria for determining injury. 1/

The agreement to implement article VI was being administered by a GATT committee on antidumping practices, established in 1968. It obliges participating governments to report annually with respect to antidumping laws and regulations and also to submit summaries of information regarding investigations made and actions taken in dumping cases.

During the year the GATT secretariat published a volume containing the texts of national antidumping legislation in force in signatory countries 2/ and also summarized the information relating to dumping cases as furnished by participating governments for the period July 1969 through June 1970. The United States reported investigations in 27 new cases and final action (duties imposed) in 5 cases; 30 cases were pending at the beginning of the period; of 34 cases pending at the end of the period, proceedings on 11 had been

1/ For a discussion of this point, see U.S. Senate, Committee on Finance, Report of the U.S. Tariff Commission on S. Con. Res. 38, Regarding the International Antidumping Code signed at Geneva on June 30, 1967, Committee print, March 13, 1968.

2/ GATT, Anti-Dumping Legislation: Anti-Dumping Laws and Regulations of Parties to the Agreement on the Implementation of Article VI of the GATT, Geneva, 1970.

initiated before July 1, 1969. Canada reported 5 cases pending at the beginning of the period and 4 cases pending at the end of the period; 1/ the EC reported one case pending at the beginning of the period and one case on which proceedings were initiated during the period; the United Kingdom reported 5 cases pending at the beginning of the period and 6 cases pending at the end of the period. During the succeeding 12-month period, July 1970 through June 1971, the United States opened investigations concerning 22 cases and imposed duties in 10 cases.

In calendar year 1970 the number of complaints of dumping by U.S. producers rose sharply. In four cases, determinations of injury from sales at less than fair value were made by the U.S. Tariff Commission and were followed by assessment of offsetting dumping duties. These cases concerned aminoacetic acid from France, steel bars and shapes from Australia, whole dried eggs from Holland, and tuners for electronic products from Japan. Formal investigations were instituted with respect to such injury from sales of ferrite cores, television receiving sets, and capacitors--all products of Japan. 2/

The GATT committee in 1970 was particularly concerned with policy and procedures for terminating dumping proceedings through voluntary price revision without imposition of antidumping duties. Article 7

1/ Antidumping legislation was enacted by Canada in 1903, but Canada's injury provision dates only from 1969.

2/ For a brief summary of the roles of the U.S. Treasury, the U.S. Tariff Commission, and the U.S. Bureau of Customs in matters of dumping, see U.S. Dept. of Commerce, Commerce Today, June 26, 1972, pp. 7-10.

of the international code--forgiveness of dumping--permits a country to close a case without assessing a special duty when the exporter agrees to cease exporting or stop exporting at less than fair value. Comments on U.S. policy with respect to such voluntary undertakings, transmitted to the GATT secretariat in December 1970, stated that the policy revision announced by the U.S. Treasury in May 1970 was consistent with the letter and spirit of code; price assurances were accepted only in cases of minimal dumping margins in terms of volume of sales. The United States also reaffirmed its policy of not assessing dumping duties in the absence of injury investigations.

Balance-of-payments Restrictions

Procedures for consultation with respect to balance-of-payments restrictions and difficulties were the subject of a note, dated April 28, 1970, to the GATT council from the chairman of the GATT committee on balance-of-payments restrictions. The note outlined current procedures for the conduct of consultations under article XII, which related to restrictions to safeguard balances of payments, and article XVIII, which dealt with economic development and balance-of-payments problems, among others. Enumerations of topics for structuring these consultations and the specific points to be covered were annexed to the note. These were organized under four main headings: balance-of-payments position and prospects, alternative measures to restore equilibrium, system and methods of the restrictions, and effects of the restrictions.

In 1970, the GATT committee concerned with these restrictions was examining and considering various new and continuing import restrictions introduced for balance-of-payments reasons. Among these were Israel's surcharge of 20 percent on most imports, Yugoslavia's surcharge of 5 percent on all dutiable imports, and Uruguay's continuance of a system of import surcharges. Three contracting parties --Israel, Spain, and the United Kingdom--were operating import deposit schemes. Israel introduced its system early in the year, following it in August with imposition of an import surcharge; Spain's import deposit, introduced in 1969, was reduced from 20 percent to 10 percent in December 1970 and was to be terminated in 1971.

United Kingdom.--The import deposit scheme, introduced by the United Kingdom in 1968 as a measure necessary to bring the country's balance of payments into surplus, was terminated in December 1970. The original 50-percent deposit rate had been lowered to 40 percent in 1969; in 1970, the rate was cut twice--to 30 percent in May and to 20 percent in September.

The British scheme was the subject of three reports of a special GATT working party and of a review by the International Monetary Fund (IMF). 1/ It was concluded that phasing it out would be desirable and in line with strengthening international cooperation on eliminating trade barriers.

1/ Paragraph 2 of GATT article XV requires that the IMF be consulted on problems dealing with monetary reserves, balances of payments, and foreign exchange arrangements.

Border Tax Adjustments

Study of the practices of contracting parties and the implications of the provisions of the General Agreement relating to so-called border tax adjustments was undertaken by a GATT working party in 1968. This was followed in 1970 by a decision to introduce, on a provisional basis, a procedure for notification by contracting parties of major changes in relevant national tax legislation and practices, and furthermore, to hold consultations to review changes and discuss problems in these complex matters.

The GATT was intended to provide for equal tax treatment of domestic and foreign products; that is, to permit neutralizing the trade effects of national taxes, principally through rebating indirect taxes to exports and imposing levies on imports. As years passed, more importance was attached to the complexities of national tax systems and the implications of border tax adjustments for international commercial policy. In a report adopted in December 1970, the working party concluded that neither GATT provisions nor tax practices were trade neutral and that further examination under existing terms of reference and in existing circumstances would not be useful. It recommended that in place of the term, border tax adjustments, "tax adjustments applied to goods entering into international trade" be used. 1/

1/ GATT, Report of the Working Party, adopted December 2, 1970 (No. L/3464), BISD, 18th Supp., pp. 97-109.

Developing Countries

The special problems that developing countries were meeting in their efforts to expand export earnings, the primary concern of the Committee on Trade and Development, were to receive attention at a higher organizational level of the GATT. Plans were made to establish a committee of three, comprising the chairmen of the Contracting Parties, the Council of (representatives of the) Contracting Parties, and the Committee on Trade and Development, which would guide inquiry into and study of particular aspects of these trade problems. The new committee would report to both the Contracting Parties and the Committee on Trade and Development.

The obligations of Contracting Parties under GATT article XXXVII--Commitments--with respect to instituting a system of generalized tariff preferences in markets of developed countries for semi-manufactured and manufactured products of developing countries were discussed. ^{1/} No action was taken during the year, but the Contracting Parties continued to be willing to negotiate the proposition and a protocol relating to trade negotiations among developing countries was under consideration. Moreover, consultations for concessions, guided by the Trade Negotiations Committee of Developing Countries, were well underway.

^{1/} In 1969 members of the OECD (Organization for Economic Cooperation and Development) had submitted to the UNCTAD (United Nations Conference on Trade and Development) proposals for a nonreciprocal generalized preference system that might be instituted for a limited period of time, perhaps for 10 years. The United States took the lead in this effort and indicated that, subject to Congressional approval, it would participate in such a scheme and proposed a time limitation for phasing out existing reverse preferences. (The background and history of this proposal for tariff preferences for developing countries is given in Reeves, op. cit.)

Committee on Trade and Development

During 1970 the Committee on Trade and Development continued to review operation of part IV of the General Agreement, adopted a work program of its own, strengthened consultative activities, and followed closely work being done on the interrelated problems of quantitative import restrictions, border tax adjustments, adjustment assistance in developed countries, and antidumping. At one of its sessions, representatives of developing countries expressed concern about the lack of action in the GATT with respect to trade and development, protectionist tendencies in some countries, and the danger of developed countries' becoming preoccupied with their own problems. Positive action was thought to be more possible if a new higher level committee were established. Representatives of developed countries pointed out, however, that they could make no commitment about supporting recommendations that might be made by the proposed committee of three.

UNCTAD-GATT activities for trade promotion

Programs for trade promotion sponsored jointly by UNCTAD (United Nations Conference on Trade and Development) and the GATT were greatly expanded. Demand for services under these programs, coordinated by the Geneva-based International Trade Center, increased. The techniques of export promotion and export marketing, for which additional resources--technical and financial--had been made available through the United Nations Development Program (UNDP) and from voluntary country contributions, were emphasized. For 1969 extra-budgetary resources

and the center's budgetary resources each totaled about \$1 million; by 1972, these figures were expected to rise to \$4 million and \$2 million, respectively.

The training program, one of the important activities of the center, was being expanded. Fellowships were continuing to be made available through the UNDP, and seminars being offered in various aspects of international trade and commercial policy were becoming more specialized.

Regional and Other Trading Arrangements

The General Agreement (article XXIV) recognized that closer integration of national economies could increase trade, at least for countries with market economies that might be party to agreements for such integration. It provided that formation of a customs union or a free trade area should not be prevented if it did not raise barriers to trade with other contracting parties. The subject of economic integration involving developing countries was becoming increasingly more important. Several such arrangements, in being or evolving in 1970, were the subject of study by working parties of the GATT and were targets for criticism as discriminatory trade agreements. Reports were completed on the second convention of association between the EEC and the African States and Madagascar, signed at Yaounde in 1969, and on two agreements establishing association between the EEC and Tunisia and between the EEC and Morocco; in these reports, conclusions were not reached with respect to the degree and type of

integration established and the effects of the arrangements on external trade. Accession in 1970 of Iceland to EFTA (the European Free Trade Association) and the association between EFTA and Finland were also subjects of reports by a GATT working party, but no conclusion could be made on the basis of information then available. In addition, the GATT was notified in 1970 of a decision concerning the association of the EEC with overseas countries and territories and of the signing of association agreements between the EEC and Israel and between the EEC and Spain; the conditions and terms of these instruments would be examined in the GATT.

The discriminatory aspects of agreements between the EC and associated countries were of particular interest to the United States, since these agreements provided for preferential treatment on products that accounted for a significant part of U.S.-EC trade, including U.S. markets for citrus products. In 1970, public hearings on the effect of these agreements on U.S. trade were held in Washington pursuant to section 252 of the Trade Expansion Act of 1962.

India, the United Arab Republic, and Yugoslavia

The Contracting Parties decided in 1970 to continue to permit India, the United Arab Republic, and Yugoslavia to implement their preferential agreement for trade expansion and economic cooperation in effect since 1968. Use of regional trade preferences as a means to assist developing countries was not causing concern as were the agreements between the European Community and its associates, which permitted continuation of reverse preferences between EC members and their former dependencies.

The decision of the Contracting Parties, to expire no later than March 31, 1973, was made subject to several conditions and to an annual review that would relate this trade agreement to the objectives of the GATT and the outcome of the negotiations for a multilateral exchange of tariff concessions among developing countries. Such negotiations had recently been undertaken within the framework of the GATT committee for trade negotiations of developing countries. The agreement of India, the United Arab Republic, and Yugoslavia had been permitted, the most-favored-nation principle notwithstanding, because it aimed to expand trade possibilities and to contribute to economic development--in line with the objectives of part IV of the GATT. Furthermore, the agreement provided for extending tariff concessions to other developing countries.

Textiles

In early 1970, the cotton textile committee of the GATT reported on the LTA (Long-Term Arrangement Regarding International Trade in Cotton Textiles) in its seventh year of operation--1969. ^{1/} Statements concerning national conditions and trends in the industries of many of the participating countries were presented. During the period the LTA had been in force, according to the U.S. statement, U.S. imports had increased at a faster pace than domestic output had expanded, imports

^{1/} This committee was formally established in 1961 by the Contracting Parties as a committee of the GATT. Article 8 of the Long-Term Arrangement Regarding International Trade in Cotton Textiles (LTA) provided for a committee, composed of representatives of all countries party to the arrangement that would meet from time to time, undertake studies, and review operation of the arrangement once a year. (Operation of the LTA is discussed in Ch. 1, above.)

from developing countries had risen significantly, and the United States had met the obligation under article 6(c) to accord no more severe treatment to nonparticipating countries than to countries party to the arrangement. The fact that in the United States more persons were employed in the textile industries than in any other branch of manufacturing was stressed.

Statements were also presented for the EEC, Japan, Canada, the United Kingdom, the United Kingdom on behalf of Hong Kong, Mexico, Israel, Republic of Korea, Austria, Norway, Sweden, United Arab Republic (Egypt), India, Pakistan, Greece, and the Republic of China. Satisfaction with the bilateral agreements being developed within the framework of the LTA and the contributions of the arrangement to the orderly marketing of cotton textiles was expressed, but so was concern about the seriousness of the long-run problems in the textile industries of both importing countries and exporting countries.

The statement made for Canada before the GATT committee on cotton textiles pointed to the downtrend in the use of major-weight cotton products and the rapid growth in markets for textile products of other fibers and of blends; moreover, Canadian demand for noncotton textiles was being increasingly supplied from imports. In the Canadian view, article 6(b) of the LTA, dealing with the matter of substitute products and explicitly stating that the participating countries did not intend to broaden the scope of the arrangement beyond cotton textiles, was not adequate. In consequence, Canada had resorted to separate

bilateral negotiations, outside the framework of the arrangement, with respect to products of manmade fibers. 1/

Poland's Trade with Contracting Parties

The third annual consultation on Poland's trade with countries participating in the GATT was held in 1970. Poland had formally acceded to the GATT in 1967, after about eight years of a rather special relationship with the Contracting Parties, including participation in the Kennedy Round. This was the first of the centrally planned East European economies to accede fully without basic changes in trading practices--Czechoslovakia, under a coalition government, was one of the original contracting parties; Yugoslavia acceded in 1966 only after setting up a permanent customs tariff and decentralizing foreign trade activities; Romania's accession, requested in 1968, was being negotiated through a special working party. 2/

Instead of attempting to make reforms in a planned economy, with its state monopoly of foreign trade, that would permit offering of concessions, Poland undertook to increase the value of its imports from other GATT-participating countries by not less than 7 percent a year. The protocol for Poland's accession provided for this obligation and also for annual consultations on trade performance during the preceding 12-month period and import targets for the following year. Poland met this import commitment for 1968 to 1969, and was

1/ Bilateral negotiations of the United States regarding wool and manmade-fiber textiles are discussed in Ch. 1, above.

2/ For a discussion of the problems of state trading and the GATT, see Kenneth W. Dam, The GATT, University of Chicago Press, 1970, pp. 328-329.

expected to continue to do so in the 1969-70 period. During the 1970 consultation, it was agreed to amend the protocol so changes in trade would be calculated on a multiyear average basis rather than an annual one.

According to the protocol of accession, an effort was to be made during the third consultation to set a date when prohibitions or quantitative restrictions inconsistent with article XIII (nondiscriminatory administration of quantitative restrictions) of the GATT would be eliminated; quantitative restrictions would be administered without discrimination--as they were applied by other contracting parties on imports from Poland. But no date could be agreed on. Seventeen countries, the United States among them, had notified that they maintained no such restrictions; the EC and its member states, along with eight other countries, notified otherwise. Poland, accorded most-favored-nation treatment by the United States since 1960, had long been the principal source of U.S. imports from East Europe (including the U.S.S.R). 1/

1/ For a discussion of the technicalities of extending nondiscriminatory treatment to Communist countries by the United States, see Anton F. Malish, United States-East European Trade: Considerations Involved in Granting Most-Favored-Nation Treatment to the Countries of Eastern Europe, U.S. Tariff Commission, Staff Research Studies, No. 4, 1972.

Chapter 3.

DEVELOPMENTS IN EUROPE, LATIN AMERICA AND THE
CARIBBEAN AREA, CANADA, AND JAPANEuropean CommunityIntroduction

For the European Community (EC) the year 1970 marked the beginning of the final stage for completing economic union. 1/ A full-fledged customs union had been achieved and a common external tariff on industrial goods and a system of variable levies on agricultural imports were in operation. 2/ The six EC members were about to push for further economic harmonization and to direct attention to enlarging the Community and establishing monetary union.

The heads of state or government and the ministers of foreign affairs of the member states had met at The Hague at the end of 1969, "to define the broad lines for the future," among other things. They reaffirmed their governments' desire to move from the transitional period to the final stage of the Community, to enlarge it both through entry of additional members and creation of special relationships with other European states, and "to lay down a

1/ Since 1967 the three legally separate European Communities (ECSC, EEC, and Euratom) established by Belgium, France, Federal Republic of Germany, Italy, Luxembourg, and the Netherlands had shared a single council of ministers and a single commission; by virtue of a merger treaty, a council of ministers, representing national interests, was given the power of decision and a commission of nine was appointed to act in the overall interests of the three European Communities.

Forty-seven nations had representatives accredited to all three European Communities in 1970, 37 to the EEC only, and one to the EEC and the ECSC.

2/ On January 1, 1970, the EC's common external tariff on many industrial and some agricultural products was lowered by a further 20 percent, bringing the reductions negotiated in the Kennedy Round, and scheduled to be fully implemented on January 1, 1972, to 60 percent.

definitive financial arrangement for the common agricultural policy." It was agreed that a plan should be worked out for the creation of an economic and monetary union; "...monetary cooperation should be backed up by harmonization of economic policies." In 1970, a report on preparing a staged plan for establishment of such a union by 1980 was submitted to the EC Commission and EC Council. It outlined principles for circulation of goods, services, people, and capital, proposing measures to be taken for achieving stated goals. 1/ Among the proposals for the first stage, the 3-year period from January 1971 through December 1973, was the proposal to keep exchange rate fluctuations between EC currencies within narrower margins than those permitted under existing IMF arrangements. This would be done through concerted action in respect to the dollar. 2/ Before year-end the EC Commission had drafted a program of action for 1971-72, and had made some preliminary decisions for the short-term coordination of economic policies and more collaboration among the central banks of EC countries.

1/ This report, known as the Werner Report, was published as a supplement to the Bulletin of the European Communities, No. 11, 1970.

2/ The implications of a system for narrower exchange rates fluctuations, including that for movements of official reserves, is discussed in Marie H. Lambert and Patrick B. de Fontenay, "Implications of Proposals for Narrowing the Margins of Exchange Rate Fluctuation Between the EEC Currencies," International Monetary Fund Staff Papers, No. 3, 1971, pp. 646-664.

Common commercial policy

The Treaty of Rome, which established the EEC, proposed that the foundation for a common commercial policy, based on uniform principles, would be laid by the end of the transitional period--by 1970. These principles were to apply particularly in regard to tariff amendments, trade agreements, liberalization measures, export policy, and protective measures, including dumping and subsidies. During the year, a number of EEC or EC regulations were issued that established common systems, related to common policy, or provided for exceptions to common policy.

Common systems were established for imports from state-trading countries and imports from countries that were contracting parties to the GATT; a common procedure, applicable to both imports and exports was set up for administering quotas; and provisions were made for maintaining export restrictions on some of the items on which the principle of free export at the community level had not been applied--leather, raw hides, copper waste, aluminum, and lead. In addition, regulations concerning export credit and credit insurance were issued.

A decision was made by the EEC Council regarding general trade agreements concluded by member states, for which a common policy had been approved in 1969, whereby member states could extend or fully renew certain treaties, trade agreements, and similar instruments. Extension of such agreements was believed to be not likely to hamper implementing policy--Community trade agreements would supersede

bilateral agreements. In 1970, a 3-year nonpreferential trade agreement was concluded between the Community and Yugoslavia; negotiations were opened with Japan and authorized to be opened with Argentina. In addition, bilateral agreements were negotiated on behalf of the Community within the framework of the Long-term Arrangement Regarding Trade in Cotton Textiles (LTA); ^{1/} agreements were concluded with the major supplier countries with which all member states had concluded bilateral agreements (India, Pakistan, Japan) or with which some member states had concluded agreements (United Arab Republic, Hong Kong, Korea, and Taiwan). Other bilateral agreements concluded during the year pertained to undertakings made during the Kennedy Round of tariff negotiations or to other particular problems.

Common agricultural policy

According to the EC Commission, four events dominated the Community's agricultural scene in 1970.

1. Within the framework of the common agricultural policy (CAP) the commission set forth proposals dealing with a first series of common programs for agricultural reform: Farm modernization, incentives to leave farming and to use farmland to improve the structure of agriculture, socio-economic advisory services and vocational training for farmers, reduction of the area in farmland use, and incentives to encourage the formation of producers' organizations and unions of such organizations in the interests of improved marketing.

^{1/} In 1970 the LTA was extended for the second time; see Ch. 1, above.

2. The Community adopted basic regulations for organization of common markets for wine, fisheries products, tobacco, and flax and hemp.

3. An EEC regulation was adopted for financing the CAP, which closely followed a Commission proposal made in 1969. The new system was to enter into force on January 1, 1971. (Agreement on financing had been a precondition to the opening of negotiations with countries that were applicants for membership in the Community.)

4. Negotiations were opened with the four current applicants for EC membership (Denmark, Ireland, Norway, and the United Kingdom). 1/

The EC Commission also reported that although most existing surpluses had been reduced during the year--notably in milk, grain, and sugar--output of many products continued to exceed demand at market prices. During the marketing year 1970-71, prices for durum wheat and common wheat, barley, maize, rye, rice, sugar, oilseeds, milk, beef and veal were maintained at the same levels as had been fixed for the previous marketing year. 2/

1/ The EC system for financing the CAP and its implications are discussed in U.S. Tariff Commission, Operation of the Trade Agreements Program, 21st Report, pp. 80-82; and Grace W. Finne, "Financing Accord Opens Door for EC Expansion," U.S. Department of Agriculture, Foreign Agriculture, February 2, 1970, pp. 5-6.

2/ The central features of the CAP and operation of the system with respect to markets for some products in 1970 are discussed in William Diebold, Jr., The United States and the Industrial World, Praeger, 1972, pp. 264 et seq.

Common taxation

In pursuance of the fiscal objectives of the Treaty of Rome, the six original members had agreed in 1967 to harmonize their turnover taxes by supplanting basic national tax systems by a common tax on value added in production and distribution (TVA)--which would be levied on imports and rebated to exports; the TVA would thus replace border taxes. By 1970, France, Germany, Luxembourg and the Netherlands were applying a common TVA; Belgium was to introduce it in 1971 and Italy, in 1972.

The TVA was planned to become a new source of income for the EC. During 1970 the six members signed the Treaty of Luxembourg, ratification of which would further the Community's financial independence. The Communities would be financed not through members' contributions but from the EC's own resources, full budgetary powers being given the European Parliament, whose members were delegates of national parliaments of the six member states. Members failing to introduce the TVA would contribute according to their share of the GNP of the EC--and the CAP would become an EC responsibility, financed from Community resources.

Foreign trade

The EC share in total world trade (excluding centrally planned economies but including Yugoslavia) could be roughly estimated at 30 percent for imports and 32 percent for exports. In current prices, 1970 exports and imports as ratios of GNP, each were 18.2 percent; the corresponding ratios for 1960 were 15.5 percent and

15.4 percent. Intra-EC trade increased nearly 19 percent over 1969 and accounted for an estimated 49 percent of total EC exports; the increase in EC exports to other countries was about 15 percent.

Trade with the United States.--The U.S. merchandise trade surplus with all EC countries in 1970 was a relatively healthy \$1.8 billion and accounted for two-thirds of this country's total positive trade balance; this surplus was \$1.2 billion in 1969 and \$0.2 billion in 1968--in terms of official U.S. trade statistics. Based on current dollars, the increase in U.S.-EC trade from 1969 to 1970 was about 14 percent for U.S. imports and about 20 percent for U.S. exports.

For 1970, U.S. imports of \$6.6 billion and U.S. exports of \$8.4 billion (including reexports) accounted for 16.5 percent and 19.5 percent of U.S. global totals. West Germany was the origin of nearly one-half the imports and the destination of roughly one-third of the exports. The approximate breakdown between agricultural and non-agricultural products in U.S.-EC trade for the years 1968, 1969, and 1970 is indicated by the following U.S. trade statistics (in billions of U.S. dollars):

	<u>Agricultural commodities</u>	<u>Nonagricultural commodities</u>
U.S. imports from EC:		
1968-----	0.4	5.5
1969-----	0.4	5.4
1970-----	0.4	6.2
U.S. exports to EC:		
1968-----	1.4	4.6
1969-----	1.3	5.4
1970-----	1.6	6.6

Enlargement of the Community

Formal negotiations for the enlargement of the European Community were opened in Luxembourg on June 30, 1970. Conferences were undertaken between the EC and four prospective members, Denmark, Ireland, Norway, and the United Kingdom, on the procedures to be followed and the measures to be instituted during a period of transition to the customs union and integration in the EC. 1/

In the view of the EC Commission, the overall approach to transition should "apply to trade not only in industrial products between the applicants and member countries and to the gradual alignment of applicants' tariffs or the common customs tariff, but also to the acceptance by the candidates of the Community's present agricultural regulations, the gradual alignment of Community prices, and the introduction of Community preference." With respect to relations with developing countries, according to the President of the EC Council, an enlarged EC would "continue its policy of association with the Associated African States and Madagascar and with any other African countries of comparable structure and level of development who requested association with a view to promoting their economic and social development."

1/ In 1967, Denmark, Ireland, Norway and the United Kingdom, had applied for membership in the EEC under provisions of the Treaty of Rome. The circumstances and ensuing events surrounding these applications are discussed in previous reports of the U.S. Tariff Commission (U.S. Tariff Commission, Operation of the Trade Agreements Program, 19th Report, 20th Report, and 21st Report).

A common basis for negotiations was worked out with a view to the four applicants' entry on January 1, 1973, and their adopting the Community's external tariff and abolishing nontariff barriers in intra-Community trade at the conclusion of an agreed-on period of transition. ^{1/} In the conferences with the United Kingdom, agreement was reached on the opportunities to be made available to British Commonwealth countries in Africa (Gambia, Ghana, Kenya, Malawi, Nigeria, Sierra Leone, Tanzania, Uganda, and Zambia), and agreement in principle was reached on the prospective participation of the United Kingdom in the European Investment Bank.

For the United States, as for other of the EC's trading partners, enlargement would heighten competition for export markets in third countries as well as in the enlarged market of the EC protected by a common external tariff. Of the prospective new members, the United Kingdom would be the most important with respect to U.S. foreign trade. In 1970, chemicals and machinery other than transport equipment accounted for two-thirds of United Kingdom imports

^{1/} On January 22, 1972, the Treaty of Accession was signed in Brussels by "the six" and "the four." The treaty was subsequently ratified by Denmark, Ireland, and the United Kingdom but was rejected in Norway; it was also approved by each of the six member states. Tariffs on industrial products traded between old and new member states would be eliminated between April 1, 1973 and July 1, 1977, the Community's common external tariff would be progressively adopted beginning on January 1, 1974, and the EEC's common agricultural policy would be applied gradually from 1973.

Some aspects of enlarging the Community from six to ten members are given in "The Anatomy of Enlargement," EC Information Bulletin, No. 2, February 11, 1972.

from the United States; alcoholic beverages and machinery other than transport equipment accounted for about one-half of U.S. imports from the United Kingdom.

After the negotiations for new memberships were opened, exploratory talks were begun with countries that were not current candidates for EC membership and guidelines were set up with respect to EC policy in such relationships. Negotiations with Austria were opened in November for working out some sort of interim commercial arrangement pending a possible overall solution regarding relationship with members of EFTA (European Free Trade Association) not candidates for membership.

Association and other preferential agreements

The EC continued to formalize special trading relationships, including so-called reverse preferences, with countries around the Mediterranean and in Africa; in fact, a special policy for the Mediterranean area was developing and closer cooperation with Latin America was being formulated. Under the Treaty of Rome, member states had agreed to bring into association with the EEC the non-European countries and territories with which they had had special relations--to promote their economic and social development; agreements of association and trade agreements with other countries were also provided for. In general these agreements provided for at least partial customs unions with the EEC and, in some cases, the development of free trade areas as well. They have in effect

enlarged the EC as a trade bloc and have promoted regional integration. This growing network of trade arrangements would, however, be greatly affected by the addition of new members and closer association with EFTA, particularly with respect to the United Kingdom and British Commonwealth countries.

In 1970, preferential trading with former Belgian, French, and Italian dependencies 1/ and with Greece and Turkey was continuing; preferential agreements with Spain and Israel and an association agreement with Malta were concluded; negotiations were in progress between the EC and the United Arab Republic and Lebanon; and in addition, an arrangement with Algeria was adopted and a ministerial-level meeting was held with Portugal. The association and other preferential agreements in force in 1970 are listed below by country:

Country and year of entry into force

Association agreements:

Greece (1962) 2/
 Turkey (1964)
 Tunisia (1969)
 Morocco (1969)

1/ Surinam and Netherlands Antilles are integral parts of the Kingdom of the Netherlands and participate in the EC as associated territories; in 1969 Surinam instituted a tariff favoring EC countries, following which the U.S. position as Surinam's chief trading partner declined--a larger share of Surinam's bauxite, alumina, and aluminum exports was going to Europe.

2/ Notwithstanding strained EC-Greek relations following the change of government in Greece in 1967, Greece's trade with the Community continued to expand and in 1970 the EC share in Greece's imports and exports both increased.

Country and year of entry into force - Continued

Associated African states and Madagascar (1964) <u>1/</u>	
Burundi	Malagasy Republic
Cameroon	Mali
Central African Republic	Mauritania
Chad	Niger
Congo (Brazzaville)	Rwanda
Congo (Kinshasa)	Senegal
Dahomey	Somalia
Gabon	Togo
Ivory Coast	Upper Volta

Preferential agreements:

Israel (1970)

Spain (1970)

An association agreement with the three countries constituting the East African Community, Kenya, Tanzania, and Uganda, signed in 1969 and known as the second Arusha agreement, was ratified in 1970. It was to enter into force on January 1, 1971. (The first Arusha agreement, signed in 1968, was not ratified before its expiration date the following year.) Like the Yaounde agreement, the Arusha agreement contained provisions for promoting regional cooperation, but unlike that agreement, it contained no provision for development aid. These three East African countries, former British territories, had concluded a treaty for cooperation in 1967, which formalized the basis for and objectives of their economic union and common market. 2/

1/ This agreement, known as Yaounde I, was extended beyond its 1969 expiration date until the second convention of association, signed in 1969, would become effective for 5 years from January 1, 1971. Like its predecessor, Yaounde II generally provided for the preferential transfer of goods, services, and capital (including development aid) between the EEC and the eighteen countries. (The main provisions of the second convention are set forth in EC, Third General Report on the Activities of the Communities 1969, pp. 348-352.)

2/ For the trade provisions of the Arusha agreement, see U.S. Tariff Commission, Operation of the Trade Agreements Program, 21st Report, pp. 71-72.

Generalized tariff preferences for developing countries

The tentative scheme for generalized tariff preferences for developing countries offered by the EEC in 1969 was reported by an UNCTAD special committee on preferences to have been favorably received. This scheme provided for preferential treatment on manufactures and semimanufactures and to some extent on processed agricultural products.

In October 1970, about the same time as an agreement on such preferences was being reached in UNCTAD, the European Parliament passed a resolution calling on the EC Commission to institute as soon as possible during the course of 1971, nonreciprocal, nondiscriminatory preferences on finished and semifinished products and also to study the problems of granting preferences on processed agricultural products. In its view, any agreement by the industrialized countries on a uniform scheme for preferences would be an impossibility and a generalized scheme would not be incompatible with the existing EC network of preferences for African countries. 1/

1/ A system of generalized tariff preferences was put in operation by the EC on July 1, 1971; it applied to processed agricultural products as well as manufactured goods. By January 1, 1972, Japan, Norway, Czechoslovakia, Denmark, Finland, Hungary, New Zealand, Sweden, and the United Kingdom had introduced preferences for developing countries.

European Free Trade Association

Introduction

Europe's second major trade bloc, the European Free Trade Association (EFTA), made progress during 1970 toward realizing its main objective--more economic cooperation. This was stimulated by developments that followed the high-level conference of the European Community (EC) held at The Hague in December 1969. The two European trade blocs were moving closer and a smaller EFTA vis-a-vis the EC was in prospect. 1/ Negotiations between the EC and the four EFTA member states that were prospective members of the Community were commenced, and exploratory talks for free-trade agreements between the EC and EFTA countries not seeking entry into the Community were started.

In the preceding 5 years, EFTA had become largely a free-trade area for most industrial ~~of~~ manufactured goods; products originating in the agricultural or fisheries sectors of the area's economy were generally excluded. 2/ Portugal and Iceland were applying import

1/ Of the seven original EFTA member states, Denmark, Ireland, Norway, and the United Kingdom were applicants for EC membership; Austria, Portugal, Sweden, and Switzerland were not currently interested in joining the EC.

An associate member since 1961, Finland was in effect an eighth member of EFTA, entitled to the same rights as full members but permitted certain exceptions with respect to removing import barriers. Beginning with EFTA's 1970-71 budget year, Finland was to contribute to EFTA's expenses on the same basis as full members, that is, according to the size of its GNP but no more than 30 percent of net expenditures.

Iceland became a full EFTA member on March 1, 1970.

Yugoslavia was regularly attending EFTA committee meetings on trade, customs, and economic development.

2/ Special agreements concluded by EFTA members could provide for duty-free treatment of excluded products, however. Frozen fish fillets, for which an EFTA scheme for minimum prices on imports into the United Kingdom became effective on January 1, 1970, were to be treated as industrial products and imported duty free.

duties in intra-area trade but were to remove them by 1980; quantitative restrictions appeared to have been all but eliminated. Since, unlike the EC, EFTA was not a common market--member states maintained their own external tariffs--and had no common agricultural policy, it was in effect a preferential trading area for manufactures that was working toward eventual elimination of nontariff restrictions, not only in intra-EFTA trade but also in intra-European trade. It desired to extend applicability of free trade within its area and to find solutions to the problems and technicalities of free trading in a closer relationship with the EC and its network of preferential arrangements.

Foreign trade

EFTA foreign merchandise trade (in terms of current prices), both within the area and extra-area, showed substantial increases over 1969 but also a mounting external deficit. In contrast with 1969, when exports increased more than imports, the rise in imports (15 percent) outpaced that in exports (about 10 percent). The area's trade deficit rose to about \$7 billion, trade with the EC accounting for nearly \$5 billion and that with the United States, for \$1 billion. The rise in intra-area exports from \$10 billion to \$12 billion represented an increase of about 19 percent, somewhat higher than the increase from 1968 to 1969.

Trade data published by the Association ^{1/} further showed that the area's imports (from third countries) reached \$38 billion--42 percent supplied from the EC and 13 percent from the United States.

^{1/} Imports valued c.i.f.; exports valued f.o.b.

U.S. trade statistics 1/ indicate that the United Kingdom, which accounted for the major part of EFTA's external trade, supplied 57 percent of the U.S. imports of \$3.9 billion from the EFTA area and took about the same share of the U.S. exports of \$4.5 billion to the area. On this basis, the United States accounted for 12 percent of the United Kingdom's export market and 13 percent of that country's total imports; other EFTA countries supplied about 16 percent of the United Kingdom's imports and were the market for the same share of its exports. Without the United Kingdom, EFTA countries in 1970 would have accounted for between 4 and 5 percent of U.S.-EFTA trade, each way.

Other activities

Three new agreements to end trade barriers were signed by EFTA members in 1970. These agreements, to go into force in 1971, were expected to simplify exporting within the EFTA area. They concerned standards for and quality control of pharmaceutical products, pressure vessels (ranging from aerosol cans to boilers for industrial use), and ships' equipment for firefighting and lifesaving. Similar agreements were being worked out for other products, including agricultural machinery, as part of the EFTA program for progressively reducing nontariff barriers to trade.

EFTA's origin rules for governing eligibility of goods for area tariff treatment appeared to have been working fairly satisfactorily, except with respect to imported synthetic yarns texturized in the area.

1/ Imports valued f.o.b.; exports valued f.o.b.

Four Nordic countries sought to amend the origin requirements and in fact applied amended origin requirements to certain imports. The matter was being reviewed by EFTA's committee on customs. These four Nordic countries--Denmark, Finland, Norway, and Sweden--had long worked for close economic cooperation among themselves; the treaty drafted in 1969 for establishing an organization for Nordic economic cooperation, to include a common customs tariff and a common labor market, was under consideration. Some progress toward this objective was considered to have been made early in 1970 at a meeting of the Nordic Council held in Reykjavik.

During 1970 the EFTA Council, the body responsible for the operation of EFTA under the Stockholm Convention, decided on revision of the Convention's escape-clause provision for dealing with unwanted effects of imports. By virtue of the revision, escape actions became subject to prior approval by the EFTA Council and unilateral action by member states would not be permitted.

Latin America and Caribbean Area

Introduction

At the beginning of the 1970's, movement toward economic integration in the Latin American and Caribbean area centered largely in the regional subgroupings that had emerged in consequence of great disparity in levels of development, a formidable obstacle to economic cooperation among developing countries. The least developed economies, which included both some very small countries and some relatively

large ones, could not advantageously cooperate with the more advanced and usually larger economies that they viewed as being more concerned with commercial benefits from larger markets and economies of scale than with meeting common needs. ^{1/}

The Latin American Free Trade Association (LAFTA) had reached a plateau in its efforts to form a multicountry free trade area in South America and was being overtaken by the Andean subregional group countries. The Central American Common market (CACM), the only common market in the area, was running aground and its projected convergence with LAFTA was not occurring. On the fringe of these cooperation movements was the Caribbean Free Trade Association (CARIFTA), which represented largely an effort on the part of Caribbean countries--which, among others, included Guyana, Jamaica, Trinidad and Tobago--to coordinate economic development following political independence. Within CARIFTA, but apart from LAFTA, the Leeward and Windward Islands had formed the East Caribbean Free Trade Association. Also, 1970 was the first year of the formal existence of the River Plate Basin Group, an association of Argentina, Bolivia, Brazil, Paraguay, and Uruguay, for the joint economic development of the Basin area. Thus far, these integration activities had been largely concerned with industrialization, which in many countries had been regarded as the road to economic salvation. The agricultural sectors in these largely agricultural

^{1/} Per capita GNP for 1969 is estimated to have been about \$1,000 in Argentina and Venezuela in contrast with, for example, \$270 in Brazil, \$260 in Honduras, and \$160 in Bolivia.

economies seemed to have been bypassed; growth in manufacturing was slowing down, however, and the problems of underemployment were becoming more apparent.

The decision to undertake the long-planned-for Latin American common market during the 15-year period beginning 1970 had been made in 1967 at the meeting of American chiefs of state (including the President of the United States) held at Punta del Este, Uruguay, but no progress toward this objective was made. ^{1/} According to an action program agreed on at that conference, sponsored by the Organization of American States, a Latin American common market based on the two existing integration systems, LAFTA and CACM, would converge. The interests of Latin American countries not yet associated with these systems would be taken into account, such countries being encouraged to join one of the existing systems; conclusion of other subregional agreements would be facilitated, however; special attention was to be given to industrial development "within integration" and the participation of landlocked countries in regional and international trade." ^{2/} In 1970, some progress was made toward achieving the LAFTA objective of a free trade area

^{1/} In concept the Latin American market would include Central America and South America; in this report, however, Latin America and the countries of Latin America refer to countries that officially use romance languages (members of CACM, members of LAFTA, and the Dominican Republic, Haiti, and Panama).

^{2/} Based on excerpts from the Action Plan agreed on by the American Presidents, in Miguel S. Wionczek, ed., Economic Cooperation in Latin American, Africa, and Asia, A Handbook of Documents, M.I.T. Press, 1969, pp. 96-101.

by 1980--the target date as revised from 1973 by adoption in 1969 of the Protocol of Caracas--although no progress was made toward creating a LAFTA common market. Furthermore, the CACM was by then straining to withstand economic setbacks.

In 1970, the countries of the Latin American and Caribbean area overall were not experiencing favorable terms of trade; however, for several years they had been experiencing good overall balance-of-payments performance, primarily in consequence of great growth in export volume--a condition that was not to continue.

It was a period of intense economic nationalism; policies were forming and government actions were being taken that were particularly significant for foreign trading partners. These concerned the role of domestic private investment in export-oriented and other industries, exemption from import duties for machinery and other needed capital equipment, and most significantly, regulation of foreign investment and foreign control of industry by countries that had long welcomed foreign capital. A number of these countries were not contracting parties to the GATT--including Mexico and Venezuela, which in 1970 accounted for between 40 percent and 50 percent of the merchandise trade each way between the

United States and 19 independent states in the Latin American and Caribbean area. The percentages of U.S. exports and imports to and from the larger group accounted for by these countries plus Brazil (a contracting party to the GATT) approximated 60 percent.

In 1970, the U.S. trade surplus with 19 American republics in the Latin American and the Caribbean area (the members of CACM, LAFTA, and the Dominican Republic, Haiti, and Panama) was an estimated \$916 million, an increase of 14 percent over 1969; these countries accounted for 12 percent of total U.S. imports and 13 percent of total U.S. exports. The U.S. trade account with other countries in the area, a group including primarily Jamaica, Netherlands Antilles, Surinam, and Trinidad and Tobago, was, however, in deficit by \$220 million.

The impact of economic cooperation in the area on the foreign trade of the United States has not been treated in this report. How much of the expansion in intraregional trade that has taken place in the last few years has been at the expense of third countries has not been analyzed, nor has the role of aid and assistance been examined. It is apparent, however, that in 1970 changes in trade patterns were taking place. Commercial relations with trading partners other than the United States--particularly Japan and Western Europe--were strengthening, and growth in U.S. direct investment in the Latin American and Caribbean area was declining. Some developments that occurred in 1970 with respect to

LAFTA, the Andean subregional group, and the CACM are discussed below.

Latin American Free Trade Association

The movement toward trade liberalization and integration of industry among members of LAFTA (Latin American Free Trade Association) was, by 1970, reaching a virtual standstill. 1/ Furthermore, the first steps toward creating a LAFTA common market, or a larger Latin American common market through convergence with the CACM, were being deferred. LAFTA as an institution was in fact operating within changed and less demanding parameters. At the end of 1969 the Treaty of Montevideo had been officially modified through adoption of a protocol providing for: completion of intra-LAFTA free trade by 1980 instead of 1973; negotiation of annual tariff reductions on products or national lists on the basis of a less demanding formula for liberalization; and suspension of common lists until new standards could be established (no later than by yearend 1974). 2/ In addition, more attention was to be paid to agriculture, the sector

1/ Eleven countries were participating in LAFTA: Argentina, Brazil, Mexico, Paraguay, Uruguay, Venezuela, and five countries that had formed the subregional Andean group for economic integration--Bolivia, Chile, Colombia, Ecuador, and Peru. LAFTA membership thus included the countries that accounted for most of Latin America's foreign commerce.

2/ Under the Treaty of Montevideo, by which LAFTA had been established in 1961, four common lists (lists of products on which all members would agree to eliminate restrictions) were to have been negotiated over a 12-year period ending 1973.

for which development of common rules had lagged. The agricultural protocol, designated the Protocol of Caracas, was to go into force, however, only after ratification by all contracting parties. At the end of 1970, it had been ratified only by Argentina and Brazil.

Some progress in industry integration and tariff concessions may have been made during the year through conclusion of five new mutual agreements on complementarity, which brought the total of such LAFTA agreements to sixteen. The products covered in and signatories to these agreements were as follows:

<u>Products</u>	<u>Signatories</u>
Phonographic equipment	Argentina, Brazil, Mexico, Uruguay, Venezuela
Petrochemicals	Argentina, Brazil, Mexico, Venezuela
Refrigerating, air conditioning, and other electrical apparatus for domestic use	Brazil, Mexico
Electronic and electrical communications equipment	Brazil, Mexico
Chemical-Pharmaceutical products	Argentina, Brazil, Mexico

Before becoming effective, these new agreements were to be declared compatible with the terms and objectives of the Treaty of Montevideo.

The year was a relatively good one for LAFTA trade. In general, balance-of-payments positions were favorable and monetary reserves were increasing. Although import demand for raw materials in developed countries was not generally strong, prices of many

Latin American export commodities were favorable and the export of Latin American manufactures was increasing. Interregional supplies of consumer goods were increasing. The dollar value of LAFTA merchandise trade increased in 1970 over 1969, both in interzonal trade and extrazonal trade; extrazonal exports outpaced intrazonal exports, which had not been the case in the two preceding years. Four countries--Argentina, Brazil, Venezuela, and Chile--each with exports to other LAFTA countries of more than \$100 million, accounted for nearly three-fourths of the intrazonal exports of about \$1.2 billion. All exports of LAFTA countries, including shipments to one another, totaled about \$12 billion; Brazil and Venezuela each accounted for between \$2 billion and \$3 billion, and Argentina, Chile, Mexico, and Peru each accounted for between \$1 billion and \$2 billion.

Andean subregional group and Andean Development Corporation

Andean integration has been called a regional approach to the problem of economic weakness. Approved by LAFTA in 1969, the Andean group for subregional integration came into formal existence in 1970. Generally modeled after the CACM, it was to operate within the provisions of the treaty signed at Montevideo in 1961 by which LAFTA had been instituted, but was moving rather independently. In 1970 Bolivia, Chile, Colombia, Ecuador, and Peru (with a combined population of about 55 million), but not Venezuela, were members. 1/

1/ The preferential tariff concessions granted the United States in the U.S.-Venezuela reciprocal trade agreement were considered by Venezuela as complicating its negotiations with the Andean group and with LAFTA.

Venezuela was, however, an original member of the Andean Development Corporation, a subregional development bank established in 1968, and had long participated in the preparatory work for, and signed, the Declaration of Bogota (1966) by which the Andean countries had established themselves as an economic grouping and had undertaken a program for accelerating economic integration and instituting a common market.

Andean subregional group.--Andean integration seemed to be underway in 1970. It was the first year of the Andean common market. Countries signatory to the Andean Subregional Integration Agreement that created the Andean common market were making efforts to coordinate plans for regional industrial development and lower external tariffs, pushing to expand intraregional trade, and acting to eliminate by the end of the year all nontariff restrictions among themselves. Sectoral industry meetings yielded some agreement with respect to classifying certain products (except those covered in the LAFTA complementation agreements and those on the LAFTA common list), but progress was not being made easily and claims for exceptions were developing. Throughout 1970 the Andean Economic Integration Commission, the highest executive organ under the association agreement, met in ordinary and extraordinary session, and the Junta, the permanent secretariat in Lima, was developing economic strategy and sponsoring economic studies. And--notwithstanding opposition by various private interests to common regulations, particularly those pertaining to foreign investment--pressure for some form of cooperation with the Andean

group by Argentina (population: 24 million), Mexico (population: 50 million), and Venezuela (population: 10 million) was beginning to manifest itself.

The Cartagena Agreement, as the Andean integration agreement had officially been designated, although it was signed in Bogota, called for creation of a common market--free trade among members by 1980 (all exceptions to be eliminated by 1985) and a common external tariff to be established during a 5-year period beginning at the end of 1975. Under this agreement, participated in by five of the poorer South American countries, preferential treatment in intra-regional trade and other special considerations were made for the two least advanced members, Bolivia and Ecuador. According to the agreement, an annual 10-percent reduction in duties on one another's products would be instituted by Chile, Colombia, and Peru, beginning on December 31, 1971, and by December 31, 1973 these countries were to eliminate all duties on goods from Bolivia and Ecuador. Despite geographic and other obstacles to integration, member countries proposed, in a 10-year period beginning 1970, to work for joint industrial development, which would include sharing productive resources and supplying one another to the greatest possible extent.

The Andean commission's last session of the year, held in December, was a historic one in the Latin American integration movement. The Commission, through its Decision No. 24, approved a code for the common treatment of foreign investment, It also adopted decisions that concerned the mechanism and procedures for

intragroup integration and trade liberalization, a common minimum external tariff, and intergroup tariff reductions in terms of a new adaptation of the Brussels Tariff Nomenclature (BTN) proposed for use in place of the BTN as adapted to LAFTA.

Following ratification in member countries, ^{1/} the Andean Foreign Investment Code would set up conditions and impose strict limitations on existing as well as new foreign direct investment, effective on July 1, 1971: New direct foreign investment would not be permitted in certain industries, and foreign companies operating in some industries would be obliged to convert into national companies. Annual take-home profits from direct foreign investment would be limited to a 14-percent return on the investment. In order to stimulate development of national companies and to provide access to the best available technology and knowhow, the code prohibited certain restrictive clauses in contracts governing the application and use of imported technology, patents, and trademarks. Andean duty-free treatment would apply to products of national companies (more than 80 percent owned by national investors), and mixed companies (51-80 percent owned by national investors); but it would be available to foreign companies (less than 51 percent owned by national investors) only if such companies were in the process of being transformed into national or mixed companies. Thus, not only were joint ventures on an equal basis

^{1/} The Andean Foreign Investment Code was subsequently ratified by all members except Colombia, in which country it was declared unconstitutional.

not invited, but divestment was to take place. 1/ Time limits, however, were liberal. Notwithstanding opposition in member countries, as well as abroad, to the stringency of the code's provisions, which was to lead to provisions for exceptions in national laws, an attitude toward foreign investment had formed-- of which the extreme actions taken during 1970 by a military government in Peru and Chile's new Marxist government under President Allende were a dramatic part.

In 1970 the United States accounted for about 28 percent of the Andean group's exports of \$3.5 billion and 38 percent of those countries' imports of \$2.8 billion. In 1969 the United States accounted for 29 percent of the group's exports of \$2.9 billion and for 38 percent of its imports of \$2.5 billion.

Andean Development Corporation.--The Andean Development Corporation, headquartered in Caracas, held its first stockholders meeting in June 1970. This organization, with authorized capital of \$100 million, was established in 1968 to foster integration within the Andean subregion--including Venezuela--through creation and expansion of production and service enterprises. According to a provision of the Cartagena Agreement, it was to maintain close contact with the Andean integration commission and with the Junta.

As of August 1970, \$25 million had been subscribed in two classes of shares, \$5.5 million each by Chile, Colombia, Peru, and Venezuela; \$1.5 million each by Bolivia and Ecuador. These modest funds were planned to be supplemented by internal and external

1/ Walter Krause, Integration as a Strategy for Latin America (unpublished paper), 1971.

credits. Financing of specific undertakings would start in 1971, on the basis of policy determinations made following completion of an inventory of feasible integration projects.

Central American Common Market

The general economic distress of the Central American Common Market (CACM) that resulted in 1969 from calamitous weather in Honduras and Guatemala and active hostility between El Salvador and Honduras, the two poorest members, continued into 1970. Common solutions to economic problems could not be negotiated, and before the year ended Honduras took unilateral action that in effect constituted withdrawal from the common market.

The CACM had been a notably successful undertaking, and was achieving its objectives under the General Treaty on Central American Integration, signed in Managua in 1960. Five small nations--Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua--linked by the Pan American Highway had, technically at least, managed to remove virtually all restrictions on intra-regional trade and had agreed on a single tariff applicable to most items of external origin. 1/

The CACM contained important elements of integration, some of which predated its institution. Among these, were the Central American Economic Integration Bank (CABEI), the Central American

1/ Of these countries, only Guatemala was a contracting party to the GATT. Panama, not a member of the CACM (or the LAFTA), was participating in some of the CACM supporting organizations, and had signed preferential trade treaties with Costa Rica and Nicaragua, effective for 10 years beginning in 1962; in 1971 it was to sign a similar treaty with El Salvador.

Clearing House, a system of integration industries, ^{1/} a regional technological institute, and a uniform tax program for stimulating industrialization--the latter became effective in 1969. Also in existence was the Central American Monetary Council, which had been working toward monetary stabilization and monetary unification. A stabilization fund, intended to grant short-term assistance to member countries for balance-of-payments reasons, became operative in 1970. Total resources were planned to be \$20 million, each member subscribing an initial \$1 million. During the year, negotiations were concluded for a \$10-million loan from the U.S. Agency for International Development, to be made available on the basis of matching participation by the member countries. Trade among members had expanded and accelerated, although unevenly, growth in the manufacturing sector had taken place, and agriculture was benefiting indirectly. The CACM program to establish integrated industries had proved to be relatively ineffective, however, and origin rules for products in intraregional trade were lacking.

In 1970, according to published data, extraregional and intraregional trade both increased. CACM imports of goods totaled about \$1,250 million, about \$500 million of which were of U.S. origin; in 1969 CACM imports were estimated at \$1,066 million,

^{1/} "Integration industries" were to be single-firm industries, selected for establishment throughout the region so as to promote balanced growth and to discourage the rise of small, inefficient plants or large plants with excess capacity. The products of such industries would have a preferred status with respect to intraregional trade (See for example, Donald H. McClelland, The Central American Common Market..., Praeger, 1972, pp. 195-196).

36 percent of U.S. origin. 1/ Intramember exports of the five countries as a unit, in terms of the quite stable Central American peso, recovered from their low level of 1969, and trade balances improved for Guatemala, El Salvador, and Nicaragua, but worsened for Costa Rica and worsened greatly for Honduras. Suffering from a substantially increased deficit on its external trade account, Honduras on December 31, 1970, unilaterally decreed against duty-free entry for CACM products and repealed the 30-percent surcharge on imports from outside the CACM that it had adopted under the San Jose Protocol to the Central American integration treaty. 2/ El Salvador had been obliged to adjust to the blocking by Honduras of the Pan American Highway at its southern border, but nevertheless fared relatively well economically in 1970, thanks to very good earnings from coffee exports.

Canada

Canada's trade surplus increased sharply in 1970, and the country's economic growth, although slower than in previous recent years, reflected strong export performance. Strength early in the year continued following unpegging of the Canadian dollar on May 31, 1970--the exchange rate of the Canadian dollar had been maintained

1/ Official U.S. trade statistics show U.S. exports to the CACM as totaling \$425 million in 1970, about 20 percent more than in 1969, and U.S. imports from the CACM as totaling \$416 million, an increase of around 13 percent over 1969.

2/ The San Jose Protocol (1968) provided for the levying of a 30-percent surcharge, to be effective for 5 years, for the purpose of improving the balance-of-payments position of member countries. The surcharge had been put into effect by all CACM members.

since January 1961, within 1 percent around parity as prescribed by the International Monetary Fund. The Canadian balance in merchandise trade (excess of exports over imports) with the world showed a surplus of about \$2.8 billion for 1970, a striking increase over 1969, when the country's trade surplus dipped from its previous peak of \$1.1 billion attained in 1968. ^{1/} But as in the case of Japan's economic profile for 1970, negative earnings on invisibles increased, moderating considerably the rise on the current account. In Canada's case, however, the current balance showed its first surplus in several years.

The much smaller but faster growing Canadian economy, so closely integrated with the U.S. economy, was depending to a significant extent on U.S. markets, and much of Canada's large gain from trade resulted from a rising surplus on its U.S. account. Canada's positive balance vis-a-vis the United States represented 38 percent of its surplus vis-a-vis the world in 1970, compared with 14 percent in 1968, the year in which the United States first experienced a trade deficit with its northern neighbor. Exports by Canada to the United States in 1970 have been estimated at 13 percent of that country's GNP and to have accounted for some 64 percent of Canadian exports of \$16 billion and 28 percent of U.S. imports of \$40 billion. U.S. exports to Canada, less than 1 percent in terms of the U.S. GNP, accounted for about 71 percent of Canada's imports of \$13 billion and 21 percent of U.S. exports of \$43 billion.

^{1/} Dollar values are in terms of U.S. dollars.

For a decade or so, growth in Canada's exports to the United States had outpaced growth in the U.S. exports to Canada. It was a period when intense U.S. direct investment in Canada was greatly stimulating two-way exchanges of goods and services. Exports from the United States by parent firms to affiliates in Canada increased less than exports by U.S. affiliates in Canada to the United States, however. The negative position of the United States vis-a-vis Canada that had appeared in 1968 worsened, in consequence not only of growth in trade in manufactured products but also because the United States was importing a larger percentage of crude materials from Canada. In terms of official U.S. statistics, the deficit mounted from somewhat under \$1 billion in 1968 to over \$2 billion in 1970; roughly one-half of the negative balance in 1970 could have been attributable to trade in automotive products. ^{1/} In 1970, 95 percent or more of U.S. imports of woodpulp, newsprint, natural gas, and trucks was supplied from Canada, and 90 percent or more of Canada's imports of soybeans, coal, motor vehicle parts, aircraft, automotive electrical equipment, and worked alloy aluminum was supplied from the United States.

The Canadian tariff continued to reflect three sets of tariff arrangements: general rates, which applied to products of the few countries with which Canada had entered no trade agreement; most-favored-nation rates, which applied to products of countries (other

^{1/} Bilateral trade statistics can vary greatly according to which country's data are used. In this case, valuation of automotive products that were intra-company transfers presented important inconsistencies; In U.S. statistics, these products were recorded at wholesale value for imports and at transaction value for exports, whereas Canada's imports were valued at dealer prices.

than Commonwealth countries) with which Canada had trade agreements-- the contracting parties to the GATT; and preferential rates for products of British Commonwealth countries (except Hong Kong). Moreover, trade agreements between Canada and some Commonwealth countries accorded duties lower than the preferential tariff rates. In 1970, the Commonwealth and other countries with which Canada had trade agreements providing for an exchange or an accord of preferences were:

Australia	Leeward and Windward Islands
Bahamas	Malawi
Barbados	Malaysia
Bermuda	Malta
British Honduras	New Zealand
Ceylon	Nigeria
Cyprus	Pakistan
Ghana	Sierra Leone
Guyana	South Africa
India	Tanzania
Ireland	Trinidad and Tobago
Jamaica	Uganda
Kenya	United Kingdom and dependent territories
	Zambia

Canada's preferential trade, largely with the United Kingdom, declined relatively throughout the 1960's. The shares of the United Kingdom and of other Commonwealth and preferential countries in Canada's two-way trade for the years 1960, 1965, and 1970 as shown in Canadian statistics were as follows (in percentages of total values):

	<u>Canada's imports from</u>		<u>Canada's exports to</u>	
	<u>United Kingdom</u>	<u>Other preferential countries</u>	<u>United Kingdom</u>	<u>Other preferential countries</u>
1960	17.4	6.4	10.8	5.1
1965	13.8	5.9	7.2	4.3
1970	8.9	4.6	5.3	4.5

The loss of preferential tariff exchanges in consequence of the proposed entry of the United Kingdom into the European Common Market would, in itself, be of relatively small trade significance for Canada. The EC was Canada's second largest trading partner and was already providing a faster growing market for industrial products than was the United Kingdom. Canadian exports of agricultural products to the United Kingdom would, however, likely become subject to variable import levies and would be in competition with existing Community preferences.

Japan

The outstanding feature of Japan's 1970 economy was a continued increase in its balance of trade surplus. In 1970 Japan's surplus in trade with the world amounted to \$4 billion in contrast to \$3.7 billion in 1969. Because of an increased negative balance on invisibles, however, the country's current account balance was \$2.0 billion--just under the 1969 figure of \$2.1 billion. Trends in Japan's balance of trade, current account, basic balance, and reserves can be seen in the accompanying table.

Japan's Balance of Payments and Reserves, 1965-1970

(In billions of dollars)

	1965	1966	1967	1968	1969	1970
Exports-----	8.3	9.6	10.2	12.8	15.7	19.0
Imports-----	6.4	7.4	9.1	10.2	12.0	15.0
Trade balance-----	1.9	2.3	1.2	2.5	3.7	4.0
Invisibles-----	-1.0	-1.0	-1.4	-1.5	-1.6	-2.0
Current account balance-----	0.9	1.3	-0.2	1.0	2.1	2.0
Long-term capital-----	-0.4	-0.8	-0.8	-0.2	-0.2	-1.6
Basic balance-----	0.5	0.4	-1.0	0.8	2.0	0.4

Japan's Balance of Payments and Reserves, 1965-1970--Cont.

(In billions of dollars)

	1965	1966	1967	1968	1969	1970
Reserves-----	2.1	2.1	2.0	2.9	3.5	4.4
Reserves as a percent of imports-----	25.8	21.8	17.2	22.3	23.3	23.3

Source: Bank of Japan, Balance of Payments Monthly, October 1971, for all data to entry "reserves" which are presented on a cumulative basis; Bank of Japan, Economic Statistics Annual, 1970 for cumulative reserves; reserves as a percentage of imports computed.

In bilateral U.S.-Japanese trade, the 1970 imbalance remained at the serious level of the two preceding years. The trade deficit for the United States with Japan in these three years was (in billions of dollars): 1/

1968	\$1.1
1969	1.2
1970	1.3

In retrospect it seems clear that the Japanese authorities were not sufficiently aware of the new world into which they had been moving, nor were they displaying a skill in coping with surpluses comparable to that which they had developed over a century in meeting the problem of a chronic insufficiency of reserves. In 1970 the elaborate dual control structure over trade, consisting of both quantitative controls and foreign exchange restrictions, together with the restrictions on capital movements, continued to be dismantled grudgingly and modestly. In its 1969 survey of Japan the OECD had declared, 2/

The radical change of Japan's external position sets a promising new frame for future developments, but will also pose new problems. Relieved for the foreseeable

1/ U.S. Bureau of the Census, Highlights of U.S. Export and Import Trade. December issues for 1968, 1969 and 1970.

2/ OECD, OECD Economic Surveys, Japan (August) 1969, p. 5.

future from the necessity to protect the country's low level of reserves and to submit the economy every two or three years to a "recession" or cooling-off period, the problem of maintaining cost and price stability over time and of avoiding the building up of excess capacity may require greater attention than hitherto. In the likely absence of important balance of payments constraints, the enforcement of quick policy adjustments may become more difficult and the reaction of business slower. Moreover, with the attainment of a more adequate level of external reserves, Japan is, for the first time in her history, experiencing the problems of surplus countries trying to avoid undue strains on international liquidity. It is to be hoped that the Japanese authorities will take advantage of the present favorable economic situation to remove the remaining import restrictions and obstacles to capital exports.

The hesitancy with which Japanese officials moved to reduce the special controls can be seen in the following chronology of actions during 1970.

Trade liberalization

Trade liberalization refers to the freeing of trade from quantitative restrictions. Japan continued to divide all imports, expressed in terms of the 1,097 four-digit BTN categories, into three groups; (1) import quota (IQ)--items for which quantitative limits are established by the pertinent ministry and which require a quota certificate in order to obtain foreign exchange financing; (2) automatic import quota (AIQ) items, on which in effect there are quotas without quantitative limits; and (3) automatic approval (AA) items, for which no certificate is required in order to obtain the necessary foreign exchange.

In 1970 the number of four-digit BTN items, in whole or in part under IQ restrictions, was reduced from the October 1969 level of 118 items as follows:

	<u>Total</u>	<u>Mining and industry</u>	<u>Agriculture</u>
February	109	45	64
April	98	39	59
September	90	35	55

That an item was removed from the category of an IQ might or might not mean that it moved into the automatic approval (AA) category. A number of the items dropped from IQs moved to automatic import quotas (AIQ). The Japanese Government has claimed that this was done to give it fuller statistical data; outsiders have questioned this. Under foreign pressure, AIQ items in 1970 were reduced. The September 1969 level of 253 four-digit BTN items, in whole or in part under AIQ classification, was reduced in 1970 as follows:

April	124
September	69

Reduction of NTBs

Import deposits.--As of May 18, 1970, import deposits which since November 1969 had been 1 percent were suspended.

Trade financing.--As of May 1970, the preferential margin of discounting export bills over the bank rate (below market rates) was reduced so that the margin of this preference was about 1 percent.

Additional import financing. As of June 1, 1970, the Bank of Japan made additional yen funds for financing imports available to commercial banks at official discount and loan rates (below market rates).

Increase in size of quotas. As of September 1970, quotas for items under import quotas were increased so that the minimum would represent 2 percent of domestic consumption.

Capital liberalization

The OECD's capital liberalization program refers to the removal of restrictions on the import of capital and its liquidation. Logically, "liberalization" also refers to the liberalization of the export of capital. Japan has controlled both.

As a member of the OECD, Japan subscribed to its Code of the Liberalization of Capital Movements but signed it with an exceptionally large number of reservations. The country continues to display a fear of foreign capital in the form of equity. It reports industries "liberalized" in terms of 50-percent and 100-percent participation in new undertakings. In Class One "liberalized" industries, foreign participation is permitted in new undertakings up to 50 percent; in Class Two, up to 100 percent. In either circumstance an application for participation must be submitted to the authorities, but "liberalization" means that the application will not be examined on a case-by-case basis but rather will be automatically approved. In 1970 there were 447 "industries" open to 50-percent participation in new undertakings; 77 were open to 100-percent participation. Examples of "industries" which in 1970 were in the 100-percent, Class Two group are:

Soup	Electric furnace pig iron
Monosodium glutamate	Motorcycles
Liquors (excluding whiskey)	Watches
Raw silk reeling	Beauty salons
Sheet glass	Private employment agencies.

Permissible foreign ownership in existing companies, with certain excepted industries, was made somewhat more generous in 1970. On September 20, 1970, foreigners (collectively) were permitted to own up to 25 percent of the stock in existing companies (previously the share had been 20 percent). In restricted industries, foreign ownership was limited to under 15 percent; examples of restricted industries are banking, electric power, and gas.

Japan has maintained a third dimension of control over foreign ownership--the maximum permitted a single foreign individual. In 1970, the maximum limit for any single investor was 7 percent.

Japan has likewise controlled the export of capital and the use of foreign exchange by its citizens for tourism. In September 1970 the ceiling for automatic approval of loans and direct investment abroad was raised from the level of \$200,000, where it had been since October 1969, to \$1 million. On April 18, 1970, investment trust funds were allowed to invest in foreign securities up to a collective total of \$100 million. On May 1, 1970, the amount of remittances a foreigner could take out of Japan was raised. The permissible level of remittances on copyrights and remuneration for lawyers and accountants was raised to a maximum of \$5,000. On March 1, 1970, the ceiling on the amount of money an individual Japanese could take out of the country on each foreign trip for tourism was increased from \$700 to \$1,000.

Tariff reductions

In addition to the stepped reductions of duty rates under the Kennedy-Round provisions, Japan carried out selective additional reductions. The most noteworthy in 1970 was an additional reduction on small cars. At the Kennedy Round, Japan had pledged to lower the duty rates on small cars from 40 percent to 30 percent over the period July 1, 1967 to January 1, 1972, and on large cars from 40 percent to 20 percent. However, in a note to its schedule Japan had appended a qualification on small cars stating that "subject to certain conditions to be met by a participant concerning motor vehicles" (this concerned Japanese entry into the Italian market) the duty rate "may be reduced to 20 percent." Upon obtaining a quota from Italy in 1970, Japan on May 1, 1970, reduced the duty rate on small cars from the stepped Kennedy-Round reduction rate of 35 percent to 20 percent. The duty rate on large cars had in 1969 been lowered from the stepped Kennedy Round objective of 28 percent to 17.5 percent. That substantial reductions in duty rates were conspicuously overdue can be seen from the bilateral balance in motor vehicles trade between the United States and Japan. By 1960, the United States earlier substantial favorable balance had been reduced to \$223,000. Japan's favorable bilateral balance in the following years rose as follows (in millions of dollars):

1962	\$ 10.6	1968	\$268.5
1964	46.7	1970	745.2
1966	169.5		

Recession

In Japan's case "recession" is a very relative term meaning that the growth rate has declined from 10 or 12 percent to a mere 5 or 7 percent a year. Given the high proportion of Japan's imports which are industrial commodities, ^{1/} Japan's import performance is exceptionally closely linked to the stage of its business cycle. In the fourth quarter of 1970, Japan's longest postwar boom came to an end with distinct implications for Japan's trading partners. From previous experience, observers knew that the economic climate would not be conducive to balancing imports against exports.

New economic plan

With its characteristic way of fulfilling economic "plans" well ahead of schedule, the Government of Japan in May 1970 decided to put aside its previous plans and adopt the "New Economic and Social Development Plan for 1970-75." In contrast to the overwhelming concentration of earlier plans on GNP, this plan gave greater attention to the environment and to the quality of life. The trade implications of this approach were that Japan would not be pushing as hard as in the past on growth and exports.

^{1/} In 1970 "crude materials excluding fuels" (SITC 2) accounted for 35 percent of Japan's total imports; "mineral fuels" (SITC 3), for 21 percent.

